In the name of Allah
the most
Compassionate and Merciful

The Center for the Publication of the U.S. Espionage Den's Documents

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Tehran' Islamic Republic of Iran

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IN THE NAME OF ALLAH,

THE MOST COMPASSIONATE AND MERCIFUL

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INTELLIGENCE APPRAISAL

IRAN:

RENEWAL OF CIVIL DISTURBANCES(U)

16 AUGUST 1978

Warning Notice
Sensitive Intelligence Sources and Methods Involved
National Security Information
Unauthorized Disclosure Subject to Criminal Sanctions

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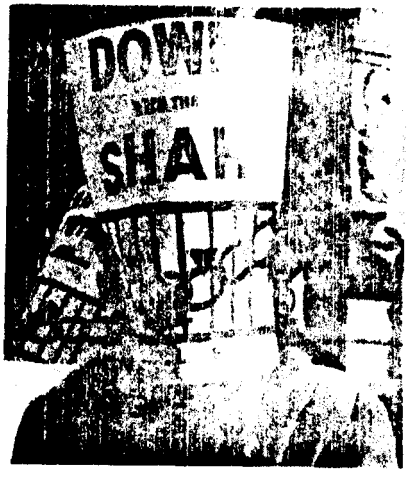
Intelligence Appraisal

IRAN:

RENEWAL OF CIVIL DISTURBANCES (U)



PREPARED BY

Maj Don Adamick, USA

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16 AUGUST 1978

DIAIAPPR 195-78

RECENT UNREST INCLUDED ANTI-AMERICAN ACTIVITY

27 July	Shiraz	All windows of Iran American Society (IAS) building broken by demonstrators
1 August	Isfahan	Pipe bomb thrown in US Consulate compound
6 August	Shiraz	Crowd attempts to enter IAS compound and break windows
8 August	Shiraz	Crowd, marching from Mosque towards IAS building, is dispersed by police
Early August	Isfahan	Several Americans report that they have been threatened

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IRAN: RENEWAL OF CIVIL DISTURBANCES (U)

Summary

(C/NOFORN) Since 21 July, Iran has experienced a wave of dissident activity similar to that which plagued the country for the first five months of the year. Religious elements opposed to the Shah have sparked a series of confrontations with the government that have resulted in 12 to 20 killed, scores injured, and several hundred arrested. Other opponents of the Shah include those of a more liberal bent, students, and possibly terrorist groups operating on the fringes. While these groups may not have a definite plan regarding Iran's future, they are united in their opposition to the Shah.

(C/NOFORN) The recent round of disturbances seems to indicate an increasing anti-US tone. In their competition to out do one another, the various dissident groups may escalate the level of anti-American rhetoric, and the latent xenophobia in the Iranian character may surface. This could lead to some trouble for the large American community in Iran, particularly for those who might get caught up in events in the more conservative cities.

(C/NOFORN) The recent deaths may set off a new cycle of religious demonstrations such as those experienced earlier this year. The Islamic month of Ramadan, now in progress, and the special mourning days in late August increase the chance for further demonstrations. The government will probably be able to handle the situation, but the Shah is still faced with a dilemma: How to continue liberalizing Iranian society and maintain order at the same time without cracking down too harshly on the dissidents.

Background

(C/NOFORN) The resurgence of civil disturbances in Iran during the past few weeks is similar in many ways to that experienced from January to May. It has its roots in traditional opposition to the Shah by religious conservatives who oppose his secularization and modernization of Iranian society. The targets of demonstrators are the same -- banks, movie houses, vehicles, and ordinary business establishments. Other opponents lending their support, if not actual participation, include those of a more liberal outlook, such as students, followers of the now defunct National Front, and possibly terrorist groups. While the disturbances are similar to previous demonstrations, they have taken on some new twists.

RELIGIOUSLY INSPIRED DEMONSTRATIONS OCCUR AGAIN

CIIR 1-6/74

Discussion

Resurgence of Dissidence

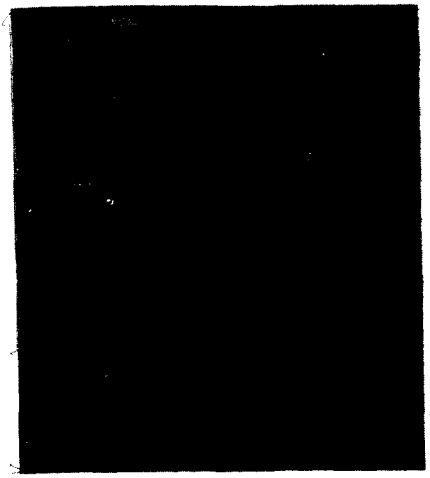
(C/NOFORN) The recent troubles began on 21 July, a religious holiday of some significance to the Shiite Muslims of Iran. Instead of holding the usual celebrations, followers of Ayatollah Khomeini called for political meetings. Commemorative services for Ayatollah Kafi, a respected religious leader in the holy city of Mashad, were followed by a violent confrontation between government security forces and demonstrators the next day. Other cities also reported some incidents, which apparently were perpetrated by religious extremists.

(C/NOFORN) During the following week, mourning ceremonies for Kafi and for those killed the previous week led to further disturbances. The rumor that Kafi was killed by government security officials further incited his following. Isfahan suffered the most violence, consisting largely of breaking windows. Casualties, as reported in the government-controlled press, indicated that some 300 were arrested, up to six persons killed, and 26 injured in the two weeks of violence. Events culminated in the bombing of the US Consulate in Isfahan. While there were no injuries and only minor damage was done, it was the first clearly anti-American act in several months.

(C/NOFORN) The period from 5 to 10 August was somewhat calmer although violence occurred in the theological center of Qom and the cities of Shiraz and Isfahan. Almost any occasion has been exploited by the religious extremists, to include continuing commemoration of Kafi, Iran's Constitution Day, and the start of the Muslim month of Ramadan. The arrest of a prominent religious leader in Isfahan by SAVAK, the Iranian National Intelligence and Security Organization, also contributed to antigovernment demonstrations.

(C/NOFORN) On 11 August, the Iranian Government declared martial law in the nation's second largest city, Isfahan. Police attempts to break up a religious demonstration led to rioting, and military forces were called in to restore order. A curfew is in effect, and the gathering of three or more persons is prohibited. The martial law is to remain in effect for one month and reportedly will be extended to other cities as necessary. Unconfirmed press reports indicate it may already have been imposed in three small cities near Isfahan. The swift imposition of martial law in the industrial and tourist center indicates the seriousness of the situation and the government's intention to confront extremists with the force required to restore order. Casualties in Isfahan and other cities since 11 August have raised the total killed and injured, but reliable figures are not yet available.

EXILED RELIGIOUS LEADER STILL INFLUENTIAL IN IRAN



AYATOLLAH RUHOLLAH KHOMEINI
AGE: 76

Has attacked Shah and his reform measures.
Opposed presence of Americans in Iran.
Exiled to Iraq in 1964.

Political Liberalization a Factor

(C/NOFORN) As the anti-Shah demonstrations and disturbances were winding down in May and the government announced a crackdown on dissidence, most religious leaders seemed to favor a cooling of the situation. There were signs that a dialogue was taking place between the Shah and the religious community. At the same time, the Iranian leader reemphasized his policy of political liberalization, and preparations for next year's parliamentary elections dominated the news. The open political atmosphere prompted much debate and generally settled the volatile situation.

(C/NOFORN) The relative calm evidently did not sit too well with the monarch's more extreme opponents. The anti-Shah followers of the exiled Khomeini appeared to have been behind much of the violence, or at least to have exploited the genuine commemorations of the religious majority. Reportedly, the outlawed TUDEH or Communist Party of Iran is tacitly supporting religious groups loyal to Khomeini. Old time nationalists of a leftist persuasion also lend their support to the antigovernment activity. While these groups may not have the same plan for Iran's future -- if indeed they have a plan -- they are united in their opposition to the Shah and the present form of government.

(C/NOFORN) The recent outbreaks suggest that an increasing anti-US tone is developing in the government's opposition. Those nationalist frontists long-opposed to the Shah have claimed that he is a puppet of the US and will do what Washington bids. They point to his liberalization policy and the improvement of human rights in Iran as examples that the Shah is following US instructions. Lately, there have been signs that the Shah's opposition believes that the US is not pressuring him enough on improving the political situation in Iran.

(C/NOFORN) The anti-American theme is reportedly also being exploited by religious elements, particularly in Isfahan. Komeini has long preached against the American presence in Iran, claiming the US is the principal supporter of the Shah and exploits Iran's wealth, while Americans in the country enjoy special privileges. Iranians typically blame their troubles on outsiders, and Americans are a convenient target. In order to gain primacy over rival dissidents, some religious leaders may take a more extreme stand on opposition to the government. This could be reflected in increasing anti-US statements, and the latent xenophobia in the Iranian populace may surface. This could pose trouble for the large American community of about 37,000 to 40,000.

(C/NOFORN) The anti-American tone has not thus far surfaced publicly, and it may be limited to the more extreme opposition. However, the number of anti-American acts in the past few weeks is unusual, considering

there were very few signs of anti-US feeling in the five months of civil disturbances earlier this year. Moreover, the large number of Americans within the country, particularly in the more conservative cities of Isfahan and Shiraz, could lead to some being caught up in the events. Most places that Americans visit in Isfahan, such as restaurants and shops, are in a relatively small area. The concentration of Americans is therefore high, increasing the possibility of incidents.

Outlook

(C/NOFORN) The old dilemma for the Shah remains -- how to continue the liberalization of Iranian society and maintain order at the same time without too harsh a crackdown on dissidents. His opposition is pressuring him to be even more liberal, and at the same time security forces are probably getting impatient with the restraints placed on them. The majority of the populace is no doubt upset with the constant disruption of normal living, and they may make demands for law and order. For the near term, the Shah is likely to continue with his same tactics, and may make another attempt to hold a dialogue with the religious opposition. Nonetheless, firm action by security forces will be used if it is necessary to quell the new round of violence. The martial law in Isfahan is an example of the Shah's determination to maintain law and order.

(C/NOFORN) The possibility of further disturbances is high. In the past those killed in demonstrations have been commemorated in ceremonies 40 days later, which have led to further violence. Thus, a new cycle of religious disturbances may have been set off on 22 July. Meanwhile, the Islamic month of Ramadan -- a time of fasting and prayer -- is now in progress, which may increase tensions. The period of 24 to 26 August, when Iranian Shiites mourn the death of Ali, their most venerated spiritual leader, will be a potentially dangerous time. The opening of school next month will probably add the student population to the unrest.

(C/NOFORN) The months ahead are to likely be turbulent ones for Iran. There is no threat to the stability of the Shah's rule, but continuing tests between the government and the opposition are in sight. (GDS 84)

SECRET

MEMORANDUM OF CONVERSATION

PARTICIPANTS: Cdr. Alain DE BEAUPUY, Assistant Military Attache, French Embassy
Ambassador Panayotis ECONOMOU, Greek Embassy
George B. LAMBRAKIS, American Embassy, Tehran

DATE & PLACE: September 15, 1978, Lambrakis' Residence

SUBJECT: Internal Situation

DISTRUBUTION: AMB, DCM, POL, POLM, ECON, OR, ICA, DAO, BIO
NEA/IRN, IRN/RNA, INR/OIL/B

De Beaupuy has the distinction of being the only member of the Diplomatic Corps who predicted the severity of the religious challenge to the government and the Shah which we have just witnessed. Cassandra-life, he has been talking to all and sundry about the wrath building up in religious circles and the historic precedents of Islam acting as a sounding board for people's complaints. Historically, the mullahs have many more allies than they did in 1963.

De Beaupuy said we should not allow the temporary moderation of Shariatmadari's views blind us to the trend. Shariatmadari is not in control of the extremists and has to yield to them. Being a "holy man" he is not a politician and acts differently than a politician. In response to my invitation for a prediction, De Beaupuy said, if the Shah does not undertake extensive activity in the next two weeks, he would predict the Shah's departure by the end of October.

The scenario sketched out would be a million moslems marching out of the bazaar in South Tehran as a tide neither the army or police would dare to stop. He then could see Gen. OVEISI, accompanied by Majles Speaker RIAZI and perhaps even the American Ambassador (!), marching in to invite the Shah to take a plane and leave the country.

The only way to avoid this, in De Beaupuy's opinion, is for the Shah to take a more direct role vis-a-vis his people. He cannot hide his responsibility for governing over the past two decades by bringing subordinates to trial. People will no longer believe his promises except those given directly as public commitments perhaps over television. People would

SECRET

want him to get rid of his family and the whole Ministry of Court. The opposition is clearly not going to settle for anything less than a constitutional monarchy reigning but leaving the governing to politicians.

The Greek Ambassador identified himself with De Beaupuy's views. He said Americans should realize that the Shah stands alone at present. No one will stand with him. Both De Beaupuy and the Ambassador admitted the Shah had been a very good influence for Iran and should be saved if possible. "If you Americans have any influence left with him, try to get him to take the necessary action before it's too late."

In elaborating on his views, De Beaupuy said he had personally followed the mobs in Tehran and had others following. September 4 had seen 100-200,000 people turn out because moderate religious leaders joined the extremists. September 7 and 8 were demonstrations carried out only by the extremists. The highest number reached September 7 was 50,000. This can be seen as the high-water mark of extremist capabilities. Thus the crucial issue for the Shah is to prevent the moderates joining the extremists in the near future.

Incidentally, De Beaupuy works for French Intelligence.

Gary

POL:GBLambrakis:hg
9/18/78

TELEGRAM

10774

FROM	CLASSIFICATION
AMEMBASSY TEHRAN	CONFIDENTIAL

E.O. 11652:
TAGS:
SUBJECT:

ACTION: SECSTATE WASHDC PRIORITY

CONFIDENTIAL TEHRAN 10774

ACTION: EXDIS

EXDIS

E.O. 11652: GDS
TAGS: PINS, IR
SUBJ: ORGANIZATION OF PRO-SHAH COUNTER-MEASURES

RS
MIN:2

AMB
POL
CRU

1. ACCORDING TO A SOURCE WITH GOOD ACCESS (ACCURACY UNSUBSTANTIATED) THE SHAH HAS TWO COMMITTEES OF FIVE MEMBERS EACH WORKING ON BUILDING SUPPORT FOR HIM IN THE COUNTRY. ONE CONCERNS ITSELF WITH BUILDING PRO-SHAH DEMONSTRATIONS. IT IS HEADED BY THE SHAH'S GOOD FRIEND AND SERVANT GENERAL FARDUST. ITS OTHER MEMBERS ARE COURT MASTER OF CEREMONIES ARSLAN/TEHRAN MARTIAL LAW ADMINISTRATOR GENERAL OVEISI, PROMINENT BUSINESSMAN AHANCHIAN, AND GENERAL KHOSROVANI. AFSHAR

2. THE OTHER COMMITTEE CONCERNS ITSELF WITH PRESS AND PROPAGANDA. IT CONSISTS OF AMIN ASHRAFI, EDITOR OF "ATESH," OLD M.P. (FROM 1953 DAYS) GHANATABADI, OLD P.M. (FROM 1953 DAYS) MATIN, FORMER MEMBER OF MINISTRY OF COURT (UNDER ALAM) MOTAGHI AND BUSINESSMAN BUYUK SABER. IT IS PLANNING A NEW, PRO-SHAH NEWSPAPER, WHICH WILL APPEAR

DRAFTED BY:	DRAFTING DATE	COORDINATION AND CLASSIFICATION APPROVED BY:
POL:GBLamorakis	11/5/78	MIN:CWNash

CLEARANCES:

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SHORTLY. IT IS ALSO BUYING STORIES IN OTHER PUBLICATIONS, SUCH AS ONE THAT HAS JUST APPEARED IN "KHONDANIKAN" MAGAZINE, WITH COVER PICTURE OF SHAH AS A YOUNG MAN BEING EMBRACED BY A LITTLE GIRL (DURING 1940'S!).

3. ALI NAGHI ANSARI, FORMER AMBASSADOR TO ITALY AND ~~CURRENTLY~~ CHIEF OF CABINET TO PRINCESS SHAMS IS THE MONEY MAN.

4. THESE EFFORTS ~~EFFORTS~~ ARE SEPARATE FROM SAVAK-LED "AGENT PROVOCATEUR" ACTIONS WHICH, ACCORDING TO ANOTHER SOURCE, HAVE BEEN BEHIND RECENT DESTRUCTION AND CLASHES IN KERMAN, RAVAR, KERMANSHAH, HAMEDAN, GORGAN, REZAIYEH, AMOL, PANEH, MARAGHEH, SANANDAJ, ETC. AS THIS SOURCE TOLD POLITICAL COUNSELOR, PARVIS SABETI HIMSELF (WHEN HE WAS STILL OFFICIAL OF SAVAK) CALLED TO BRAG OF THE FIRST TWO INCIDENTS AND TO SAY HE WAS ON HIS WAY TO KURDESTAN; SHORTLY THEREAFTER PRO-SHAH DEMONSTRATIONS AND ATTACKS BEGAN THERE.

5. COMMENT: WE HAVE ALREADY COMMENTED ON COUNTER-MEASURES IN CONTEXT OF ZAHEDI EFFORTS (TEHRAN 10699). IT IS QUITE LIKELY THAT FORMATION OF THE TWO COMMITTEES WAS INSPIRED BY ZAHEDI. SINCE WE CANNOT BELIEVE SHAH IS UNAWARE OF SAVAK ACTIVITY ON HIS BEHALF, WE CANNOT DISMISS POSSIBILITY THAT ZAHEDI CALL~~S~~ TO SHAH AND SHAH'S REPLY IN PRESENCE OF U.S. AND BRITISH AMBASSADORS WAS STAGE MANAGED TO IMPRESS THEM WITH SHAH'S INNOCENCE AS PRO-SHAH INCIDENTS BACKFIRE.

NUMBER OF IRANIAN OBSERVERS WITH GOOD SOURCES CLOSE TO HIM SEE THIS AS BLINDNESS ON SHAH'S PART TO THE PUBLIC'S IMAGE OF HIM AT PRESENT TIME AND HIS CONCOMITANT FAILURE TO APPRECIATE THE GRAVITY OF HIS OWN, AND MONARCHY'S, PREDICAMENT. ZAHEDI'S REPORTED OPTIMISM IS PROBABLY NO HELP IN THAT REGARD.

SULLIVAN

Declassified/Released
(Formerly EO 12356)
by National Archives
Department of State

Subj. POL 2-2

UNITED STATES GOVERNMENT

memorandum

DATE: November 21, 1978

REPLY TO ATTN OF: SCIATT: Vernon E. Adler

SUBJECT: Summary of Ambassador's Meeting with Select Group of American Business Community Representatives

TO: E/C - Mr. John L. Mi[illegible]

John, I thought it would be useful to document the tone and substance of Ambassador Sullivan's remarks to the business community on 15 November, for the Embassy and for the desk. This Memorandum of Conversation is attached for your clearance.

SCIATT:VEAdler:dd

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MEMORANDUM OF CONVERSATION

DATE & PLACE: November 15, 1978; Caravansarai

PARTICIPANTS: Amb. William H. Sullivan
Principal U.S. Embassy Staff Members
U.S. Business Community Representatives
(Approximately 150)

SUBJECT: Summary of Amb. Sullivan's Remarks to Major U.S. Business Representatives in Iran

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The Ambassador began his statement to the business community by explaining that two reasons brought us together for this briefing: first, it's time for an assessment of the situation and secondly, it's time for candid interchange on the situation for the American community here in Iran. He had been reluctant til now to bring the community together for this meeting because things have not been structured to the point where we could examine directions and alternatives intelligently. Now it seems things have stabilized somewhat. The group assembled was rather a select group, representing the overwhelming bulk of employed Americans in Iran. The meeting was off the record and not for the press, in order that the Ambassador's remarks could be made candidly and without attribution by the media.

Perspective on Current Events:

The Ambassador first reviewed the series of significant political events during the last ten months in Iran, starting with the perceived changes in February, when the regime determined with intellectual conviction of his Majesty, that the Iranian society is too complex for one man to continue to make all major decisions. The Shah decided that a sharing of the decision-making process must be developed and passed on to his son, who would need a type of dynasty different from that of the last 37 years. The Shah accepted that it was a difficult political change to bring about and that the relief of long-standing pressures upon the society would tend to upset the surface stability of the country, and might even be explosive. Iran had not experienced this kind of relief of pressure before, because a pervasive police involvement in the society had existed throughout the Shah's reign. The Ambassador traced the events from Tabriz where the young from the villages who had been displaced in the cities, saw opulent behavior different from traditional village behavior taking hold.

DRAFTED BY: Vernon E. Adler

DATE: November 20, 1978

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The attack, which was allowed by authorities, was repeated in many cities and spread to the universities. Khomeini revived his active role from Iraq, feeding on this new atmosphere of open expression. Opposition galvanized and polarized in Khomeini followers.

Political Realities:

By the end of Ramazan, the moderates began to realize that they could not continue in a truly independent moderate role. Along through the summer when the politicians began to see that they could not amass a following of the type Khomeini had, they began to shift toward Khomeini; this, despite the fact that the Shah espoused an Islamic Republic, a constitutional government, with a committee of five mullahs to verify that proposed legislation was consistent with the Islamic code, etc. The September 7 peaceful march was followed by the September 8 imposition of martial law and the Jaleh Square occurrence, with troops and demonstrators. In September the government's position was to placate moderates and break them off from Khomeini. Therefore, there were freedoms given -- t.v. debates, raises in salary and benefits to government employees, and other conciliatory measures within the constitution that would lend support to the moderate position. Toward the end of October, politicians pilgrimmed to Paris for discussions with Khomeini. He remained implacable and stolid.

The Shah realized that the Emami cabinet was not stemming the tide of anti-Shah sympathizers. By mid-October the Shah decided he had two options: either a coalition or a military government. He never did get any positive response with regard to coalition. On Nov. 4th, Sanjabi after going to Paris, said he supported Khomeini entirely; this was unacceptable to the Shah since Khomeini's position starts and ends with the removal of the Shah and the Pahlavi dynasty, with a return to an "Islamic Republic" as yet undefined. On November 4th, there was a university confrontation and people were killed. On November 5, troops were conspicuously absent and did not interfere in the riotous demonstrations to any significant extent, although they protected a few places. Then, of course, Emami resigned, recommending the military option, and that evening Gen. Azhari was installed.

Where we are:

Now we are at a point where there is a test of wills and of strength. No one knows how strong the opposition is. The military has proceeded with subtlety and sophistication, concentrating on not just law and order, but the closely coupled link of "back-to-work", starting with oil production. Prime Minister Azhari announced that people would be fired and moved from company housing, plus arrests. Oil production has

been boosted a bit, although it's up and down. The strike is ended in the Abadan refinery. (Normal production at this time is 6.2 million barrels daily.) Production this week is about 3 or 3+ million per day. Increasingly, people are resuming work but the strike is not broken yet. The Iran Air strike is over. There are sporadic strikes in the ministries (for example, Customs in the Finance Ministry is still on strike). So we see a trend moving back to work, with production increasing. The general strike called by Khomeini for last Sunday worked effectively in Shiraz, Isfahan and the bazaars in Tabriz, but not in Tehran.

The regime has put off testing the school situation until the 18th for the lower grades as a starter. We'll see if the teachers return and then the students in the lower grades, before testing the waters for high schools and (possibly) universities.

Khomeini's position is that the country will be brought to its knees by general strike and that he reserves the right to tell his people to raise arms. We believe an armed rebellion might not be successful and that the ability of the people to bear arms is really limited. We do not believe that Khomeini can call for a "Jihad" or holy war, because that can only be issued against an infidel and the government is clearly taking the position of retaining its Islamic code of behavior. So the test may not be decided sharply as we might decide in America through elections. Rather, the tides may move in one direction then another. If there is a state of normal civilian behavior, the fence sitters or "silent majority" can surface and support the Shah, otherwise, if there is a sullen return to work with slowdowns and foot-dragging by the populace, the tide could shift against the Shah in a major way. The government wishes to diminish the influence of Khomeini and move toward a democratic role within a constitutional monarchy over the long-term. Rolling back of strikes at this time could, of course, reverse itself and swing in the other direction. The government would not move toward a democratic solution then, but we feel the government has the levers of power in its hands now and that's to the good.

U.S. Community Safety and Welfare:

The Ambassador then discussed the security of the U.S. community and contingency measures which will be taken, the details of which would be discussed by Mr. Naas with small groups of company representatives, 4 or 5 companies at a time, during the coming weeks. The Ambassador conceded that contingencies will vary, depending upon the degrees of emergency; however, he scoped out some of the following factors: We will be dependent upon the Iranian military for our own physical security.

They in turn rely on our military for the integrity of their defenses. U. S. defense contractors are essential for retention of the Iranians' military integrity.

Echelons will be used for contingency planning because in any approaching emergency the smaller the numbers involved in preparatory action the simpler the task of execution. So there will be a continuing "fine-tooth gauging" of decisions as emergency situations may evolve.

Miscellaneous:

The disruptions of approximately a billion dollars in lost revenue and the slow-downs and strikes which have caused most of the country's commerce to become inoperative have been extremely costly and the budgetary load being borne by the GOI is incredibly great. Government payments are slowing down; there will be a natural attrition of the U.S. community. The 40-odd thousand Americans will shrink in the coming months. The Ambassador's final point was that he was proud of the way the American community has responded to the pressures and the rumors to date.

Questions were then taken from the audience of business people. Some odds and ends follow:

A. Prime Minister Azhari has put forth the legislation to set up a special court. It should be enacted soon for prosecution and conviction of prominent people on a rapid basis. Azhari is sensitive to this potentially becoming a witch hunt and intends to do something effective rapidly and then cut it off, bringing it to an end before an unhealthy momentum is gained.

B. Iran's reserves are still $11 billion, but they have suspended borrowing internationally and will have to go back to it, because of their internal liquidity problem which is major at this time.

C. We'll arrange a distribution of radios so that in the event we lose telephone communication upon which we rely, we can establish a set of links with the U.S. community. (The Ambassador stressed U.S. communications vulnerability because of our total reliance on the Iranian telephone system.)

D. Don't expect English newspapers for a while and don't rely on news broadcasts for accurate information.

E. We don't anticipate sudden deterioration, but rather in the event of an emergency, we'll probably see some phasing from the tensions developed, such as sabotage, isolated terrorist actions, etc. The Ambassador stressed we don't foresee or predict it, but it is a possibility.

F. There will be assembly points for the American community. This is a sensitive subject, so the information will be closely held. We will use echelons for dissemination of information, including the subject of departures. The Ambassador stressed Iran should not see "abandoning" by the American community of Iran, but "there is nothing wrong" with sending people home for Christmas or filling the remaining vacant seats on regular Pan Am flights which have been recently resumed.

G. On stability of the rial, the Ambassador said it was over-priced and if it floated free, the ratio would be higher. (The Persian press wants 60 to 1 instead of 70 to 1 because of lost revenue due to reduced dollar values tied to oil purchases.)

H. Within the armed forces we see no absence of loyalty; however, the senior officers are concerned about their con-scripts since these come from the same group as do the masses of demonstrators.

I. Mr. Naas will begin on November 16 to call representatives of 4 or 5 companies in and ask that they bring statistics with them, such as numbers of employees, addresses, telephone numbers, dependents, vehicle information, etc. He stated that an Information Center will be open 7 days a week to take calls, questions, etc. from 0730 until 2000.

VLA

~~VLA~~:nbt

cc: AMB/DCM
POL
OR
USICA
JLM/RF
~~NEA/IRN~~
~~INR/DDR/RNA~~
~~OSD/NEA~~

REPORT CLASS S E C R E T WNINTEL - NOFORN - NOCONTRACT - ORCON

COUNTRY: IRAN

SUBJECT: INSTRUCTIONS FROM AYATOLLAH KHOMEINI TO STAGE ANTI-GOVERNMENT DEMONSTRATIONS DURING MOHARRAM (DOI: LATE NOVEMBER 1978)

SOURCE : A CONFIDANT OF A SENIOR, LONGTIME MEMBER OF AN IMPORTANT ORGANIZATION IN THE MODERATE IRANIAN DISSIDENT MOVEMENT WHO HAS CONTINUED CLOSE PERSONAL CONTACTS WITH THE LEADERSHIP OF THIS ORGANIZATION. HIS PAST REPORTING HAS BEEN CONSISTENTLY SUBSTANTIATED.

1. AYATOLLAH RUHOLLAH K H O M E I N I HAS ISSUED INSTRUCTIONS, FIRST RECEIVED IN TEHRAN ON 25 OR 26 NOVEMBER 1978, FOR HIS SUPPORTERS AND "BROTHERS-IN-ISLAM" TO STAGE DIRECT VIOLENT CONFRONTATIONS WITH IRANIAN GOVERNMENT AUTHORITIES DURING THE HOLY MONTH OF MOHARRAM (2-30 DECEMBER 1978). KHOMEINI HAS INSTRUCTED HIS SUPPORTERS TO DISREGARD THE MILITARY GOVERNMENT'S RESTRICTIONS ON MEETINGS, DEMONSTRATIONS AND MARCHES DURING MOHARRAM. IT IS KHOMEINI'S INTENTION TO HAVE ANTI-SHAH DEMONSTRATORS BROUGHT INTO VIOLENT CONFLICT WITH MILITARY AND SECURITY FORCES DURING MOHARRAM, AS KHOMEINI BELIEVES THIS WILL LEAD TO THE REMOVAL OF THE SHAH AND THE COLLAPSE OF THE MONARCHY.

2. (SOURCE COMMENT: IN DISCUSSING KHOMEINI'S INSTRUCTIONS FOR VIOLENT ANTI-SHAH DEMONSTRATIONS DURING MOHARRAM, NATIONAL FRONT LEADERS BELIEVE THAT IT IS KHOMEINI'S BELIEF THAT THE IRANIAN MILITARY INITIALLY WILL OBEY ORDERS TO SHOOT DEMONSTRATORS, BUT, AS DEMONSTRATIONS CONTINUE AND THE DEATH TOLL MOUNTS, THE RANK AND FILE OF THE MILITARY WILL REVOLT, AND THUS BRING ABOUT THE SHAH'S DOWNFALL.)

3. CIRCULARS BROADCASTING KHOMEINI'S CALL FOR VIOLENCE DURING MOHARRAM ARE BEING DISTRIBUTED IN TEHRAN AND PROVINCIAL IRANIAN CITIES. DEMONSTRATORS ARE BEING ASKED TO WEAR WHITE CLOTHING TO DEMONSTRATE THEIR WILLINGNESS TO ACCEPT DEATH AT THE HANDS OF THE MILITARY. MEETINGS ARE REPORTEDLY BEING HELD AT MOSQUES AND OTHER PLACES TO ORGANIZE DATES AND PLACES FOR LARGE-SCALE DEMONSTRATIONS.

4. (SOURCE COMMENT: NO ONE IN IRAN CAN AT THIS TIME PREDICT WITH CERTAINTY WHETHER SIGNIFICANT NUMBERS OF IRANIANS WILL RALLY TO KHOMEINI'S CALL AND DEFY THE MILITARY AT RISK OF DEATH. IT SEEMS LIKELY, HOWEVER, THAT MASS DEMONSTRATIONS AGAINST THE SHAH WILL TAKE PLACE DURING MOHARRAM. ANTI-SHAH SENTIMENT AMONG STUDENTS, BAZAARI'S AND OTHER "EXCITABLE" ELEMENTS IS AT A HIGH PITCH, AND THESE ELEMENTS WILL PROBABLY FOLLOW KHOMEINI'S INSTRUCTIONS/).

5 (FIELD COMMENT: THE FOLLOWING IS A SUMMARY TRANSLATION OF KHOMEINI'S "PROCLAMATION TO THE PEOPLE OF IRAN ON THE COMING MONTH OF MOHARRAM" WHICH IS THE MESSAGE REFERRED TO ABOVE(

THE HOLY MONTH OF MOHARRAM IS BEING ANTICIPATED WITH HEROISM, BRAVERY, AND SACRIFICE.- THE MONTH BLOODWILL TRIUMPH OVER THE SWORD, THE MONTH OF THE STRENGTH OF RIGHT, THE MONTH THE OPPRESSORS WILL BE JUDGED AND THE SAZANIC GOVERNMENT ABOLISHED/ THIS MONTH WILL BE FAMOUS THROUGHOUT HISTORY. THE MONTH THAT THE POWERFUL WILL BE BROKEN BY THE WORD OF RIGHT. THE MONTH THAT THE IMAM OF THE MOSLEMS WILL SHOW US THE PATH OF STRENGTH AGAINST THE OPPRESSORS. THE MONTH THE FREEDOM FIGHTERS AND PATRIOTS WILL CLENCH THEIR FISTS AND WIN AGAINST TANKS AND MACHINEGUNS. THE IMAM OF THE MOSLEMS HAS TAUGHT US TO OVERTHROW TYRANTS. YOU SHOULD UNITE, ARISE AND SACRIFICE YOUR BLOOD WHEN ISLAM IS IN DANGER.

THE GOVERNMENT HAS BEEN PUT IN THE HANDS OF ANTI-MOSLEM OFFICIALS TO BENEFIT THE SATANIC RULER AND HIS PARASITIC HENCHMEN AND THUS, RUINED THE COUNTRY. THE PEOPLE DEMAND THAT ALL THEIR FORCES BE EXERTED TO DEPOSE THE SHAH.

THE MILITARY GOVERNMENT IS ILLEGITIMATE AND UNHOLY, AND YOU SHOULD OPPOSE IT AND REFUSE TO PAY TAXES TO THIS CRUEL REGIME; YOU SHOULD HELP THE REBELS AND ENCOURAGE THE NIOC WORKERS TO STRIKE. DO THE NIOC WORKERS KNOW THAT WEAPONS BOUGHT WITH OIL MONEY ARE BEING USED AGAINST THEIR BROTHERS, WIVES, MOTHERS, AND CHILDREN? DO THEY KNOW THAT THE SHAH SENDS A CONSIDERABLE AMOUNT OF OIL TO ISRAEL TO BE USED AGAINST MOSLEMS? CAN THE GOVERNMENT FORCE THE OIL WORKERS TO CONTINUE THIS TREASON?

INFORMED PEOPLE KNOW THAT A LIST IS BEING PREPARED OF GOVERNMENT OFFICIALS ALL OVER THE COUNTRY WHO ARE GUILTY OF CRIMES. GOVERNMENT OFFICIALS KNOW THAT IF THEY UPHOLD THE SHAH AGAINST ISLAM THEY WILL BE PUNISHED IN THE NEAR FUTURE.

DURING THE MONTH OF MOHARRAM WHEN THE SWORD IS IN THE HANDS OF THE SOLDIERS OF ISLAM, THE HIGH CLERGY WILL LEAD THE SHIITES AND THIS TREE OF OPPRESSION AND TREASON (THE GOVERNMENT) WILL BE CUT DOWN SO WE WILL NOHLONGER BE SUBJECT TO ITS SATANIC RULE AND TRICKERY.

THERE WILL BE A GREAT ISLAMIC VICTORY OF FREEDOM AND JUSTICE OVER CRUELTY AND TREASON, AND AN ISLAMIC GOVERNMENT WILL BE PROCLAIMED. AND TORRENTS OF BLOOD WILL BE SPILLED ON ASHURA TO MARK THE DAY OF VENGEANCESAGAINST CRUELTY AND OPPRESSION.

PREACHERS WILL REVEAL THE HOLY DUTIES AND THE CRIMES OF THE REGIME TO EXALT THE NAME OF ALI. PROCLAMATIONS WULL BE ISSUED TO REACH THE VILLAGERS TO EXPOSE THE CRIMES OF THE SHAH. THEY SHOULD BE TOLD THAT THE ISLAMIC GOVERNMENT IS FOR THEM AND AGAINST THE CAPITALISTS AND LANDOWNDRS. ON THE ADVICE OF THE AMERICANS, THE SHAH HAS RUINED AGRICULTURE. HE HAS WEAKENED THE COUNTRY TO BENEFIT THE CAPITALISTS. THE NEW GOVERNMENT WILL PROTECT YOUR RIGHTS.

YOUNG POPLE OF RELIGIOUS CIRCLES, SCHOOLS, UNIVERSITIES, NEWSPAPER WRITERS, FARMERS, WORKERS, BAZAAR MEN, AND TRIBES, ETC. -- EVERYBODY -- JOIN IN THE STRUGGLE FOR THE AIMS OF ISLAM. THAT IS, OVERTHROW THE OPPRESSIVE PAHLAVI DYNASTY AND THE SHAH'S REGIME AND SET UP AN ISLAMIC REPUBLIC BASED ON THE PROGRESSIVE PRINCIPLES OF ISLAM.

MOURNING SESSIONS SHOULD BE FREE AND NOT HAVE TO HAVE PERMISSION FJOM THE MUNICIPALITY OR SECURITY ORGANIZATIONS. YOU SHOULD HOLD THEM WITHOUT GETTING PERMISSION.

THESE ARE CRITICAL DAYS FOR IRAN AND YOU THE PEOPLE WILL BE REMEMBERED IN HISTORY FOR WHAT YOU DO. IT IS NECESSARY FOR YOU TO HELP OVERTHROW THE GOVERNMENT. YOU HAVE TO PROTECT THE NATION AGAINST THE ENEMIES OF ISLAM. THE TRAITORS WANT TO PROTECT THE

SHAH BUT THEY ARE MISTAKEN. THE SHAH HAS TO GO AND THESE PARASITES CANNOT SAVE HIM.

I CALL ON THE GREAT NATION OF IRAN TO EXERT THE STRENGTH OF ISLAM AGAINST THE SHAH AND HIS OPPRESSORS DURING THE HOLY MONTH OF MOHARRAM. LET US JOIN IN OUR HOLY AIMS TO THE HONOR OF THE PEOPLE. I CONGRATULATE THE MOTHERS AND FATHERS OF THE BRAVE YOUTH WHO HAVE BEEN MARTYRED IN THE STRUGGLE. THERE WILL BE A GREAT ISLAMIC REVOLUTION IN IRAN AND OTHER MOSLEM COUNTRIES. THEY SERVE AS THE MODEL FOR YOUTH IN OTHER MOSLEM COUNTRIES. WE HOPE YOU FLY THE VICTORIOUS FLAG OF AN ISLAMIC REPUBLIC IN ALL PLACES. THIS IS MY RESPONSIBILITY FROM GOD

SALUTATIONS,

AYATOLLAH RUHOLLAH KHOMEINI

6. ACQ: IRAN, TEHRAN (29 NOVEMBER 1978). FIELD REPORT NO. NIT-10,194.

7. FIELD DISSEM: EMBASSY AT TEHRAN (AMBASSADOR, DCM, AND POLITICAL COUNSELOR, DEFENSE ATTACHE, AND RSO ONLY). SENT TO PARIS, NEW DELHI, KABUL, ISLAMABAD, KARACHI, MUSCAT, ATHENS, ABU DHABI, KUWAIT, JIDDA, AMMAN, TEL AVIV, CAIRO, MANAMA, ANKARA, ISTANBUL (AMBASSADOR, DCM, AND POLITICAL COUNSELOR ONLY). SENT TO EXCLUSIVE FOR J-2, USCINCEUR; EXCLUSIVE FOR CINCUSAREUR; EXCLUSIVE FOR CINCUSAFE; EXCLUSIVE FOR CINCUSNAVEUR; EXCLUSIVE FOR COMIDEASTFOR; EXCLUSIVE FOR COMSIXTH FLT; EXCLUSIVE FOR CINCSAC; CINCPAC (EXCLUSIVE FOR CINCPAC, COMIPAC, AND POLAD; USNMR SHAPE (FOR GENERAL HAIG).

REPORT CLASS S E C R E T WARNING NOTICE -- SENSITIVE INTELLIGENCE SOURCES AND METHODS INVOLVED -- NOT RELEASABLE TO FOREIGN NATIONALS - NOT RELEASABLE TO CONTRACTORS OR CONTRACTOR/CONSULTANTS -- DISSEMINATION AND EXTRACTION OF INFORMATION CONTROLLED BY ORIGINATOR.

CLASSIFIED BY RECORDED REPORTING OFFICER XGDS-2.

S E C R E T

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MEMORANDUM OF CONVERSATION

PARTICIPANTS: Serge Degallaix, First Secretary, French Embassy

Clyde D. Taylor, First Secretary, American Embassy

DATE & PLACE: December 3, 1978, Mirabelle Restaurant

SUBJECT: French Economic Interests in Iran

DISTRIBUTION: AMB/DCM, POL, OR, JLM/RF, NEA/IRN, Commerce/CAGNE Treasury/OASIA/ODN

French Population

Mr. Degallaix estimated the French population in Iran at 4,500. He said that the French Government school, the Lycee, had already decided, and this is by December 3, to close down for the two remaining weeks before Christmas vacation. Thus, he anticipated a large exodus for the long Christmas vacation. He said that before this closing the Lycee had dropped in enrollment from 450 to about 375.

Effects on French Business in Iran

Mr. Degallaix knew of only one French firm that had closed its office due to the problems here and this was a conglomerate sales office and not a large one at that. He did say that he had heard of an increase in slow payments due French firms. He said that there is some concern by COFACE, France's export bank, concerning their large exposure with Bank Omran, an exposure which exceeds $100 million equivalent. He said this exposure, relates to a number of joint ventures that have been undertaken with firms involving the Pahlavi Foundation or Bank Omran. Concerning the Tehran METRO, he characterized the project as alive but perhaps being subject to stretch out.

Railroads

The French have not received a contract yet for their portion of the railroad electrification but they do have a general planning and technical assistance contract with the Iranian State Railways and this contract is continuing.

Nuclear

He said that the strike at the nuclear sites lasted for a little over two weeks. He said there was a dispute over whether or not the workers would be paid during the strike period. The military said that they should be paid and yet the AEOI said no; a compromise was agreed and the employees were paid at half rate.

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Ayatollah Khomeini

Degallaix said that there should not be speculation over what happens to Khomeini when his three months' visa runs out in France. He said that he can stay up to a year and that his Government views Khomeini as just another one of 25,000 Iranians in the country. He said that there was "no problem concerning his staying up to a year."

Biographic

Mr. Degallaix, who handles various political issues but macro-economic reporting as well (as distinct from the commercial office in another location which deals strictly with trade matters) has been in Tehran for about two and a half years. He is leaving the end of December; his wife has already left. He will assume in Paris one of the Deputy positions in charge of commodities to former French Embassy Minister de Sedouy.

E/C:CDTaylor:dd

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RUQMRA/AMEMBASSY JIDDA 0897
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E.O. 12065: GDS 1/4/85 (FEIFER, THEODORE R.) OR-P
TAGS: PEPR, PGOV, IS, IR, IF
SUBJECT: ISRAEL AND DEVELOPMENTS IN IRAN

1. SUMMARY: ISRAELIS HAVE WATCHED WITH AWFUL FASCINATION IRAN'S PROGRESSION TO THE LOWER DEPTHS. THE CRUMBLING OF THE SHAH'S REGIME IS EXPECTED TO STRENGTHEN NASCENT ISLAMIC FANATICISM IN THE MIDDLE EAST, SIGNIFICANTLY AFFECT ISRAEL'S OIL SUPPLY, ENDANGER IRAN'S 80,000 JEWS, AND FURTHER THREATEN REGIONAL STABILITY THAT IS A KEY UNDERPINNING TO THE MIDDLE EAST PEACE PROCESS OVER THE YEARS AHEAD. FEW DOUBT THAT THE NEXT GOVERNMENT IN TEHRAN WILL CUT THE ISRAELI-IRANIAN LINE. YIELDING THE GLOOM PRODUCED BY THESE WORRIES IS THE ENORMOUS STRATEGIC SETBACK TO THE WEST WHICH A RADICAL IRAN WOULD SIGNIFY. A POPULAR ISRAELI PERCEPTION IS THAT THE U.S. COULD HAVE MOVED MORE ENERGETICALLY AND EFFECTIVELY ON BEHALF OF THE SHAH AND SOME POINT TO IRAN AS AN ILLUSTRATION THAT ISRAEL CANNOT IN THE FINAL ANALYSIS DEPEND ON WASHINGTON. FURTHER, ISRAELIS FEAR THAT THE INDUSTRIALIZED STATES, AND ESPECIALLY THE U.S., WILL BECOME EVEN MORE DEPENDENT ON SAUDI ARABIA AND THUS LESS WILLING TO EXERT PRESSURE ON THE SAUDIS TO SUPPORT THE CAMP DAVID ACCORDS AND A MODERATE SOLUTION TO THE ARAB-ISRAELI CONFLICT. MORE EMOTIONS

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AND CONCERNS GENERATED BY DEVELOPMENTS IN IRAN HAVE NOT PRODUCED A DISCERNIBLE SHIFT IN GOI POSITIONS WITH RESPECT TO THE TREATY WITH EGYPT. THERE IS GREAT ANXIETY HERE ABOUT THE EFFECT A RADICAL IRAN WOULD HAVE ON THE MIDDLE EAST IN GENERAL AND ISRAEL IN PARTICULAR, BUT NO RECOGNITION THAT GOI POLICIES WILL HAVE SOME CONSIDERABLE INFLUENCE ON THE FATE OF MODERATION IN THE AREA. END SUMMARY.

2. LIKE THE REST OF US, ISRAELIS HAVE WATCHED WITH AWFUL FASCINATION IRAN'S PROGRESSION TO THE LOWER DEPTHS. THEY BELIEVE THE FRIENDLY AND STAUNCHLY PRO-WEST REGIME OF THE SHAH HAS CRUMBLED BEYOND REPAIR AND AWAIT WITH FOREBODING ITS SUCCESSOR. FEW DOUBT THAT THE NEXT GOVERNMENT, WHOEVER ITS LEADER, IN TEHRAN WILL TERMINATE MOST, IF NOT ALL, ASPECTS OF THE CAREFULLY CONSTRUCTED AND CLOSE ISRAELI-IRANIAN RELATIONSHIP. ONLY A COUP BY THE MILITARY, IN THE VIEW OF SOME ISRAELI ANALYSTS, WOULD ENABLE ISRAEL TO SALVAGE AT LEAST SOME ITS LINKS WITH IRAN. LOOKED AT WITHIN THE REGIONAL FRAMEWORK, THE SUCCESS OF THE ISLAMIC OPPONENTS OF THE SHAH IS EXPECTED HERE TO STRENGTHEN NASCENT FORCES OF ISLAMIC FANATICISM IN THE MIDDLE EAST WHICH WILL CONTRIBUTE TO REGIONAL INSTABILITY AND OPEN THE WAY TO INCREASED SOVIET PENETRATION OF THE AREA. DEVELOPMENTS IN IRAN ARE THUS PERCEIVED BY ISRAELIS AS HAVING DISTURBING IMPLICATIONS, NOT ONLY FOR THE ISRAELI-IRANIAN BILATERAL RELATIONSHIP, BUT ALSO FOR THE REGIONAL STABILITY THAT IS A KEY UNDERPINNING TO THE MIDDLE EAST PEACE PROCESS OVER THE YEARS AHEAD.

3. A CLOSE RELATIONSHIP WITH IRAN HAS IMPORTANT SUBSTANTIVE AS WELL AS SYMBOLIC IMPORTANCE FOR ISRAEL. UNTIL RECENTLY IRAN WAS THE SOURCE OF TWO-THIRDS OF ISRAEL'S OIL SUPPLY. SUBSTANTIAL MILITARY AND INTELLIGENCE COOPERATION HAS DEVELOPED BETWEEN THE TWO STATES OVER THE YEARS. ISRAELI FIRMS HAVE BEEN INVOLVED IN CONSTRUCTION AND DEVELOPMENT PROJECTS IN IRAN WHICH, TOGETHER WITH EXPORTS, HAVE EARNED 300 MILLION DOLLARS ANNUALLY. SYMBOLICALLY, ISRAELIS HAVE VIEWED THEIR CLOSE RELATIONSHIP WITH MUSLIM IRAN AS A SIGN THAT THE JEWISH STATE WAS NOT A PARIAH TO ALL IN THE MIDDLE EAST. ALTHOUGH IRAN DID NOT ESTABLISH DIPLOMATIC RELATIONS WITH ISRAEL, LIAISON OFFICES SERVED AS DIPLOMATIC MISSIONS IN ALL BUT NAME. IN ADDITION, ISRAEL HAS VALUED THE SECURE EXISTENCE ENJOYED BY IRAN'S 80,000 JEWS, THE LARGEST JEWISH COMMUNITY STILL LIVING IN A MUSLIM STATE.

4. THUS, IT IS WITH GROWING TREPIDATION THAT ISRAELIS

SEE CLEAR SIGNS OF [illegible] IN THEIR BILATERAL
RELATIONSHIP WITH IRAN. THEY NOTE PRIME MINISTER-
DESIGNATE BAKHTIAR'S STATEMENT THAT ISRAEL PROBABLY
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WILL NOT BE RECEIVING PERSIAN CRUDE IN THE FUTURE. WHILE THIS NOT-UNEXPECTED DEVELOPMENT CREATES A DIFFICULT PROBLEM FOR ISRAEL, THE GOI IS NOT ANXIOUS TO INVOKE THE U.S. 1975 SINAI II COMMITMENT TO SUPPLY ISRAEL WITH U.S. OIL UNTIL OTHER ALTERNATIVES HAVE BEEN MORE FULLY EXPLORED. NOT ONLY DOES THE PROSPECT OF YET FURTHER DEPENDENCY ON WASHINGTON PRODUCE MUCH HESITANCY HERE, BUT BUYING U.S. OIL WOULD BE EXTREMELY EXPENSIVE AND IS THEREFORE TO BE AVOIDED IF POSSIBLE.

5. FEEDING THE GLOOM WERE PRODUCED BY THESE WORRIES IS THE ENORMOUS STRATEGIC SETBACK FOR THE WEST WHICH A RADICAL IRAN WOULD SIGNIFY. NOT ONLY WOULD A MAJOR OIL EXPORTER HAVE LURCHED OUT OF THE WESTERN CAMP, BUT THE U.S. POSITION IN THE NORTHERN TIER WOULD HAVE UNRAVELED FURTHER, WITH SOVIET INFLUENCE LIKELY TO INCREASE. FURTHERMORE, SINCE THE MUSLIM OPPOSITION TO THE SHAH IS NOT EXPECTED TO BE ABLE TO ESTABLISH A STABLE SUCCESSOR REGIME, THE ISRAELIS THINK THAT IRAN IS IN FOR AN EXTENDED PERIOD OF TURMOIL. THE NEXT GOVERNMENT MAY NOT BE A RADICAL ONE, BUT NEITHER WILL IT BE STRONG. DESPITE ISRAELI RECOGNITION OF THE REVOLUTIONARY FORCES AT WORK IN IRAN, THEY BELIEVE THE U.S. COULD HAVE MOVED MORE ENERGETICALLY AND EFFECTIVELY TO ASSIST ONE OF THEIR MOST LONGSTANDING AND CONSISTENT ALLIES[1] AND THOSE ISRAELIS SKEPTICAL OF THE VALUE OF AMERICAN COMMITMENTS POINT DISPARAGINGLY TO IRAN AS AN ILLUSTRATION THAT ISRAEL CANNOT IN THE FINAL ANALYSIS DEPEND ON WASHINGTON.

6. MORE BROADLY, SO LONG AS IRANIAN OIL PRODUCTION IS DRASTICALLY REDUCED, ISRAELIS FEAR THAT THE INDUSTRIALIZED STATES WILL BECOME EVEN MORE DEPENDENT ON SAUDI ARABIA. AS SEEN FROM HERE, THE U.S. WILL BE EVEN LESS WILLING TO EXERT PRESSURE ON THE SAUDIS TO SUPPORT THE CAMP DAVID ACCORDS AND A MODERATE SOLUTION TO THE ARAB-ISRAELI CONFLICT. FURTHERMORE, WITH THE SAUDIS EVER MORE IN THE DRIVER'S SEAT, SADAT TOO WILL HAVE EVEN LESS MANEUVERING ROOM IN THE PEACE NEGOTIATIONS THAN AT PRESENT.

7. WITH THIS IN MIND, ISRAELIS ARE ONCE AGAIN REITERATING THEIR LONG-HELD ARGUMENT THAT SAUDI ARABIA IS AN UNDEPENDABLE SUPPORT FOR THE AMERICANS TO LEAN ON. AS ISRAELIS SEE IT, THE SAUDI REGIME IS AS INHERENTLY VULNERABLE TO A WAVE OF ISLAMIC FANATICISM AS THAT OF THE SHAH'S. THE RAPID TEMPO OF MODERNIZATION AND CHANGE IN SAUDI ARABIA IS THOUGHT TO PROVIDE FERTILE GROUND FOR THE INCREASED INFLUENCE OF EXTREMIST RELIGIOUS ELEMENTS ON THE ROYAL FAMILY AND EVEN FOR THE APPEARANCE OF A SAUDI QADAFI.

8. THE EMOTIONS AND CONCERNS GENERATED BY DEVELOPMENTS IN IRAN HAVE NOT YET PRODUCED A DISCERNIBLE SHIFT IN GOI POSITIONS WITH RESPECT TO THE TREATY WITH EGYPT, NOR DO WE THINK THEY WILL. THE REMAINING ISSUES IN THE TREATY PACKAGE ARE FINITE AND THERE IS NO SIGN THAT IRANIAN EVENTS ARE SEEPING INTO THEM AROUND THE EDGES. INDEED, ONE COULD LOGICALLY ARGUE THAT THE COLLAPSE OF ONE OF THE MODERATE REGIMES IN THE REGION SHOULD LEAD ISRAELIS TO SEE THEIR FUTURE WITH EGYPT IN THE FIRST INSTANCE AND SUBSEQUENTLY WITH SAUDI ARABIA AND THEREFORE TO MOVE TO CONCLUDE THE TREATY PACKAGE AS QUICKLY AS POSSIBLE. BUT UNFORTUNATELY THAT STRATEGIC PERSPECTIVE IS ALSO ALMOST TOTALLY ABSENT HERE. SOME, INCLUDING FOREIGN MINISTER DAYAN, SEE SADAT'S REGIME AS POTENTIALLY VULNERABLE TO THE SAME KINDS OF FORCES WHICH NOW SEEM TO HAVE NEARLY TOPPLED THE SHAH. THEY BECOME ONLY MORE WARY ABOUT YIELDING STRATEGIC SPACE AND OIL WELLS IN EXCHANGE FOR A PEACE TREATY WITH SUCH A POTENTIALLY VULNERABLE EGYPTIAN REGIME. WHAT WE SEE HERE IN GENERAL IS GREAT ANXIETY ABOUT THE EFFECT A RADICAL IRAN WOULD HAVE ON THE MIDDLE EAST IN GENERAL AND ISRAEL IN PARTICULAR, BUT ALMOST NO RECOGNITION THAT GOI POLICIES WILL HAVE SOME CONSIDERABLE INFLUENCE ON THE FATE OF MODERATION IN THE AREA. LEWIS
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CABLEGRAM

HANDLING	CLASSIFICATION	MESSAGE REFERENCE NO.
	CONFIDENTIAL	Isfahan A-1

TO: DEPARTMENT OF STATE

RIF

FROM: AMERICAN CONSULATE ISFAHAN DATE: January 6, 197

E.O. 11652: GDS 2-1-79 (MCGAFFEY, D.C.) OR-M
TAGS: PINS, PGOV, IR
SUBJECT: FORECAST: CLOUDY FOR IRAN

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Summary: A civilian government will take over Iran facing problems sufficient to defeat the luckiest and most experienced politicians and there appear to be neither. Almost the most hopeful prospect for this government is a shaky, embattled care-taker status leading to elections in early summer. More likely is its failure precipitating a renewed crisis. In either event, the future looks dangerous for individual Americans. End Summary.

Isfahan Perspective on the Bakhtiar Government

As the rumours spread of a Bakhtiar Government, I sought the opinion of Isfahanis about his chance for success. The responses were basically a weak positive. Most respondents stated that if Bakhtiar was able to obtain the endorsement of Khomeini and (most important) the departure of the Shah, and if he found competent and unexceptionable cabinet members, they had nothing against him, and he would have a chance. No one I spoke to was excited about him, but no one was displeased. They stated that he was probably more acceptable to the military than any of the other opposition names mentioned in the past and was probably acceptable to the National Front as well. The more sophisticated pointed out that the combination of competence and no participation in public life in the last twenty years or so (necessary to be unexceptionable) was most unlikely and that

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CLASSIFICATION

DRAFTING OFFICER	DRAFTING DATE	PHONE NO.	CONTENTS AND CLASSIFICATION APPROVED BY:
P.O.:DCMcGaffey	1-6-79		P.O.:DCMcGaffey

FILE: JDStempel

Bakhtiar would have to choose between competence and support. Since Iran faces now all the problems which toppled previous governments, exacerbated by the last six months of strikes and disturbances, it is most unlikely he will find a Cabinet able to function effectively and he is likely to become the first post-Shah scapegoat. It is possible that last minute manoeuvering will push forward someone else in place of Bakhtiar. However, any civilian forming government at this time will have the same constraints and problems as Bakhtiar, so the following serves whatever the name of the new Premier.

Problems Facing the Government

The new government will first have to perform a subtle and tricky balancing act. It must prove acceptable to the Shah, or will not be appointed, but too much approval by the Shah will make it unacceptable to the dissidents. It must be approved by the Parliament, which most nearly represents the populace, but as the Parliament itself contains many members unacceptable to the dissidents (and as a body is considered a Shah puppet), it must distance itself from the Parliament. It must gain the acceptance of the striking workers, so that they will return to work, but must distance itself from the wage promises made by the last government if it hopes to deal with inflation.

The first problem the government will face will be a race between the departure of the Shah, a necessity for acceptability, and the organization of resistance by competitor opposition groups. The Shah is likely to delay departure until he is sure of the stability of the new government, but unless his timing is very good, his delay will fix the image of the Bakhtiar government in the public mind as just another Shah Government, thereby rendering it unacceptable.

Once accepted, the government will have to handle the revenge factor. In Isfahan, lists have appeared with over 100 names scheduled for death and larger numbers for "punishment" (unspecified) or imprisonment. These lists, locally produced by the opposition, supposedly list SAVAK personnel, military personnel who ordered or caused the death of dissidents and private or government figures who are considered corrupt or profiteers. The names on the list vary with the presenter, and it is known that many names are put on the list to settle old, personal scores. Supposedly, such lists exist in every city and town in Iran. In Isfahan, some of those on the death list have already been assassinated. The new government will have to take steps to satisfy this lust for vengeance, but to also afford the appearance of justice. Moreover, there are such large numbers of military and security authorities on the list, that the military would not stand for anything more than token sacrifices. If the mobs are not satisfied with government action, however, they are likely to take action themselves,

and SAVAK and the military to defend themselves--with bloody fighting a real possibility.

In a broader sense, the government will also have to find a way to restore order, faced with bands of young toughs--used to and enjoying the violence of mobs--continuing their activities. Again a delicate balance is necessary, because anything approaching martial law or an autocratic order will cause the general populace to rise again.

The larger problem will be the economy. The government must get the workers back to work and at the same time, must ask them and the entire country to accept sacrifices--shortages, and probably high prices. The workers were promised wage increases the country cannot afford, and the costs of returning the economy to an even keel will be astronomical. When the workers refused to return to work for wage increases of 50-125%, will they now return to work for their old wages? The capitalists and entrepeneurs, and those who control the capital which fled Iran in the last six months, will watch closely the actions of the government. If they see policies designed to appease the workers at the cost of inflation and depression, they will refuse to expend any risk capital. Unemployement is certainly high now and will increase unless the businessmen are willing to participa in the economy. The business community is in a critical cash flow situation. Those factories which continued operating have largely used up all bank credit they possessed drawing down on stocks (particularly fuel) and currently possess large stocks of unsold goods but no money. Bazaaris mostly closed for up to two months are also cash poor, and customers paying profiteering prices while getting uncertain wages are also cash poor. From somewhere, there must be a major infusion of cash or credit to prime the pumps, and for a long period of time as business is normally conducted on 12 day invoice basis. Unless the flight capital can be persuade to return to make this infusion, new money will automatically create major inflation, fueling a new economic-political cris

Scenario for (Limited) Success

It seems unlikely that this untried government can survive, faced with the above problems. One scenario for limited success, however, follows: drawn from reflections on comments of National Front activists in Isfahan. This presumes the Shah will leave as the Khomeini/National Front opposition to Bakhtiar nears a peak, causing the protest movement to collap in the surge of joy at this element of success. All workers will return to their jobs as part of that joy, without immediate discussions about wages. Khomeini will lose any influence, as he will continue demanding protest when most people are tired of it. The government will schedule immediately several major show trials, and somehow "endorse" the various revenge lists, without acting on them, focusing people's attention on the major tirals and vowing an "unendin

pursuit" of all malefactors. Meanwhile, the important have their Iranian property confiscated when the government learns of their flight. As it will not be fair to punish underlings when the big fish escape, only a few symbolic arrests will be made. Any workers who attempt strikes or protest about the lack of raises will be attacked as profiteers, following the model of the Shah, and jaw-boned back to work.

The cabinet will be in a state of constant shuffle, gradually bringing in representatives of the various National Front and other opposition party factions, and playing them off against the other, with Ministers abruptly dismissed as incapable of dealing with various problems, thus shifting the blame and buying time. A great deal of attention will be paid to upcoming elections, with numerous committees appointed, including opposition figures and probably a few minor delays, just to keep people anxious. The government will itself take a major part in the campaign, declaring the country's problems as serious and demanding that candidates address the problems, not personalities. The opposition will have one eye on the elections, so will be unable to make a united front against Bakhtiar. The economy will muddle through, with the government making many announcements about the need for sacrifice, so that Iran will belong to Iranians. Finally and perhaps most important, the Government will focus attention on a new enemy, probably foreigners, and most likely Americans. They will be accused of treacherously abandoning necessary projects as a last gesture of support for the Shah, and simultaneously of attempting to take advantage of the country's precarious economy of profit--damned if they stay or if they leave. Among the symbolic punishments will be of foreigners working without work and residence permits, or otherwise in violation of any Iranian regulations--probably nothing more than expulsion but given a big play. There is little room for maneuver in this scenario, but if all the elements fall into place, the Bakhtiar Government could maintain itself until elections, and perhaps even after, depending on the level of opposition discord.

Implications for the U.S. and Americans

If the Bakhtiar government falls, the likeliest result will be a new authoritarian regime, either by military coup or by an uprising of the radical right (elevating Khomeini) or the radical left (unlikely to be friendly to the U.S.). A military coup, while likely to be both successful and friendly to the U.S., is unlikely to last long, as the populace have learned how to fight the military--civil disobedience and economic pressure rather than direct violence--and there is no evidence the military has learned a proper response. If

it did succeed, it would be only if it adopted radical right or left plumage. A Khomeini government would be, at least initially, hostile to the U.S. and foreigners and would be likely also to dissolve shortly of its own incompetence if nothing else. A radical left government, like that in Afghanistan, is likely to be correct in its relations to the U.S., but lean heavily on the USSR for support and would become quickly entangled in internal disputes with the religious right, again like Afghanistan. Any of these results will lead to the disintegration of the economic strength of Iran, the increased likelihood of further groups and struggles, and the loss of a U.S. ally.

On the other hand, a Bakhtiar success is likely, at least in the short run, to be seriously dangerous for Americans living in Iran, or at least in Isfahan. The anti-foreign/anti-American feeling continues here, accompanied by violence of increasing intensity. If a government in Tehran both restricts revenge on SAVAK and security figures and adopts an anti-American attitude, there will almost inevitably be an increase in violent incidents against Americans, and at present of higher levels of violence, the results will be serious injury and death. It appears that what is in the better interests of the U.S. will work against individual Americans and probably will require a major reduction in the American presence here, for several months at least.

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C O N F I D E N T I A L

LIMITED OFFICIAL USE SECTION 01 OF 09 STATE 012254/01

CINCEUR FOR POLAD, TEL AVIV FOR PAO, DELIVER BY 9 A.M.

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TAGS: SOPN

SUBJECT: ASSISTANT SECRETARY SAUNDERS' STATEMENT

FOLLOWING IS THE TEXT OF A STATEMENT WHICH ASSISTANT SECRETARY SAUNDERS IS DELIVERING TO AN OPEN SESSION OF THE HOUSE INTERNATIONAL RELATIONS COMMITTEE ON WEDNESDAY AT 17 JAN 10100 A.M., WASHINGTON TIME. PLEASE NOTE THAT IT IS EMBARGOED FOR PUBLIC USE UNTIL THE TIME TOMORROW OF ITS DELIVERY BEFORE THE COMMITTEE.

BEGIN TEXT

-- THE PRESENT SITUATION IN IRAN AND ITS IMPLICATIONS

INTRODUCTION:

THIS HEARING PROVIDES AN OPPORTUNITY FOR US TO REVIEW TOGETHER THE PRESENT SITUATION IN IRAN AND SOME OF ITS IMPLICATIONS FOR THE FUTURE OF UNITED STATES POLICY TOWARDS IRAN AND THE MIDDLE EAST.

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I PROPOSE TO DEAL WITH THE FOLLOWING QUESTIONS IN THIS INTRODUCTORY PRESENTATION:

--WHAT HAVE BEEN THE INTERESTS AND ROLE OF THE UNITED STATES IN IRAN?

--WHAT IS THE PRESENT SITUATION AND HOW DID IT ARISE?

--WHAT ARE THE REGIONAL AND GLOBAL IMPLICATIONS OF THESE DEVELOPMENTS IN IRAN?

--WHAT IS THE U.S. POSTURE TOWARD THIS SITUATION?

--WHAT LIES AHEAD?

IN SHORT, I WILL BE DEVELOPING THE FOLLOWING POINTS:

--THE UNITED STATES REMAINS FIRMLY COMMITTED--AS HAS EVERY AMERICAN ADMINISTRATION SINCE WORLD WAR II--TO A FREE, STABLE, AND INDEPENDENT IRAN. IRAN'S INDEPENDENCE IS CRITICAL IN PROTECTING THE FREEDOM OF OTHER NATIONS IN THE MIDDLE EAST. FIFTY PERCENT OF THE PETROLEUM CONSUMED BY THE FREE WORLD PASSES THROUGH THE STRAITS OF HORMUZ ON IRAN'S SOUTHERN FLANK.

--IRAN, LIKE OTHER NATIONS THAT HAVE DEVELOPED RAPIDLY, HAS EXPERIENCED FUNDAMENTAL AND ACCELERATING CHANGE OVER THE PAST TWO DECADES--ECONOMIC DEVELOPMENT, WIDESPREAD SOCIAL CHANGE, AND DEMANDS FOR GREATER POPULAR INVOLVEMENT IN SHAPING THE DECISIONS WHICH AFFECT IRAN'S LIFE AND FUTURE. IN THE COURSE OF THIS PROCESS OF RAPID MODERNIZATION, ECONOMIC PROGRESS HAS OUT-PACED THE DEVELOPMENT OF POLITICAL INSTITUTIONS. SOME IRANIANS HAVE FELT THAT THEIR TRADITIONAL ROLES AND RELIGIOUS CONVICTIONS HAVE BEEN THREATENED BY THESE DEVELOPMENTS AND BY THE INTRODUCTION OF AN UNFAMILIAR CULTURE. MANY ARE NOW INSISTING ON A WIDER SHARING OF POLITICAL POWER AS WELL AS ECONOMIC BENEFITS. THIS IS THE CRUX OF THE
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PROBLEM IN IRAN TODAY.

--OUR POLICY OVER THREE DECADES HAS BEEN TO WORK WITH IRAN, AS WITH OTHER NATIONS UNDERGOING THESE PROFOUND CHANGES, TO HELP THEM FIND CONSTRUCTIVE SOLUTIONS TO THE PROBLEMS THEY FACE, EMERGE FROM PERIODS OF CHANGE WITH NEW STABILITY, AND PRESERVE THEIR NATIONAL INDEPENDENCE. OUR STRONGLY-HELD VIEW IS THAT NO OUTSIDE POWER SHOULD TRY TO DICTATE IRAN'S COURSE, EXPLOIT INSTABILITY FOR ITS OWN ENDS, OR SEEK CONTROL OF ANY KIND IN THIS AREA. EACH NATION SHOULD HAVE THE FREEDOM TO WORK OUT ITS FUTURE FREE FROM OUTSIDE INTERFERENCE.

--THE ENTIRE AREA OF WESTERN ASIA IS CHARACTERIZED BY

GROWTH AND CHANGE. CHANGE PRODUCES OPPORTUNITY AS WELL AS INSTABILITY AND CRISIS. THE ISSUE IS HOW TO CHANNEL CHANGE ALONG PATHS LEADING TO STABILITY AND STRENGTH. OUR POSITION IN THE AREA IS STRONG. MOST OF THE STATES THERE SHARE OUR OBJECTIVES FOR THIS REGION--THE SECURITY AND NATIONAL INDEPENDENCE OF EACH STATE IN THE AREA AND THE OPPORTUNITY TO CHOOSE THEIR OWN WAYS TO BUILD BETTER LIVES FOR THEIR PEOPLE. BECAUSE WE SHARE THOSE OBJECTIVES AND SEEK NO DOMINATION, WE BELIEVE UNITED STATES HELP IN APPROPRIATE WAYS WILL BE SOUGHT IN THE FUTURE

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AS IN THE PAST AS NATIONS OF THE AREA WORK OUT THEIR FUTURES. WE ARE IN CLOSE TOUCH WITH GOVERNMENTS IN THE REGION AND ELSEWHERE WHOSE INTERESTS ARE ALSO AFFECTED BY THIS SITUATION.

AMERICAN INTERESTS AND ROLE:

THE INTERESTS OF THE UNITED STATES IN IRAN HAVE REMAINED CONSTANT OVER THE PAST GENERATION.

BECAUSE OF IRAN'S IMPORTANCE TO THE SECURITY OF THE GULF REGION, FUTURE OF THE MIDDLE EAST, AND THE PRODUCTION OF OIL, WE HAVE A STRONG INTEREST IN A FREE, STABLE, AND INDEPENDENT IRAN. WE HAVE PERSISTENTLY AND ACTIVELY PURSUED THIS OBJECTIVE SINCE WORLD WAR II.

WORKING WITHIN THE LIMITS SET BY THE GOVERNMENT OF IRAN IN AREAS OF COMMON INTEREST, WE HAVE HELPED IRAN STRENGTHEN ITSELF ECONOMICALLY IN TWO WAYS: (1) WE HAVE PARTICIPATED IN IRAN'S MODERNIZATION, FIRST THROUGH DEVELOPMENT ASSISTANCE AND THEN THROUGH THE COOPERATION OF PRIVATE AMERICAN FIRMS. (2) AMERICAN AND OTHER WESTERN COMPANIES HAVE WORKED CLOSELY IN THE DEVELOPMENT OF IRAN'S OIL PRODUCTION AND MARKETING, THEREBY HELPING TO PROVIDE THE REVENUES WHICH HAVE BEEN THE MAIN ENGINE OF IRAN'S ECONOMIC DEVELOPMENT.

AS IS OFTEN THE CASE WITH GOVERNMENTS WHERE AUTHORITY IS HIGHLY CENTRALIZED AND WHERE IMPORTANT ECONOMIC AND STRATEGIC INTERESTS ARE AT STAKE, OUR ABILITY TO MAINTAIN CONTACT WITH ALL ELEMENTS OF THE SOCIETY AND PRESS EFFECTIVELY AND CONSISTENTLY FOR CONSTRUCTIVE CHANGE HAS BEEN LIMITED. WHERE WE SAW SOCIAL AND POLITICAL PRESSURES BUILDING UP WITHIN THE SOCIETY, WE CALLED ATTENTION TO THEM, BUT THE PACE OF DEVELOPMENT HAS BEEN SET BY THE GOVERNMENT AND CIRCUMSTANCES IN IRAN.

WE HAVE ALSO RESPONDED TO IRAN'S REQUESTS TO HELP MODERN-
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IZE ITS ARMED FORCES, WHICH HAVE PLAYED AND WILL CONTINUE TO PLAY AN IMPORTANT ROLE IN IRAN'S DEFENSE. FOLLOWING BRITISH WITHDRAWAL IN 1971 FROM A SPECIAL ROLE IN THE PERSIAN GULF WE HAVE ENCOURAGED COOPERATION BETWEEN THE STATES OF THAT REGION TO STRENGTHEN SECURITY THERE. IN PART TO COMPENSATE FOR BRITISH WITHDRAWAL, WE EXPANDED OUR SECURITY ASSISTANCE RELATIONSHIP. THE IRANIAN ARMED FORCES IN ADDITION TO HELPING NEIGHBORING OMAN DEFEND AGAINST INSURGENCY HAVE HELPED PROTECT WESTERN ACCESS TO OIL SUPPLIERS.

WE HAVE ALSO ENCOURAGED IRAN'S CONTRIBUTION TO GLOBAL ECONOMIC PROGRESS AND STABILITY. UNTIL RECENTLY IRAN HAS CONTRIBUTED NOT ONLY BY PRODUCING OIL FOR THE WORLD'S ENERGY NEEDS BUT ALSO BY GIVING SUBSTANTIAL AID TO OTHER COUNTRIES, INVESTING IN BOTH THE DEVELOPED AND THE DEVELOPING WORLD, AND PLAYING A SIGNIFICANT ROLE IN THE WORLD ECONOMY.

IN INTERNATIONAL DIPLOMACY, IRAN HAS MADE NUMEROUS POSITIVE CONTRIBUTIONS: PEACEKEEPING IN VIETNAM AND THE MIDDLE EAST, SUPPORTING MODERATE SOLUTIONS TO CONFLICTS IN AFRICA AND ELSEWHERE, AND WORKING TO RESOLVE SOME OF

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ITS LONG-STANDING DISPUTES WITH NEIGHBORS.

AS A CONSEQUENCE OF OUR OTHER INTERESTS IN IRAN, WE HAVE AN INTEREST ALSO IN IRAN'S INTERNAL DEVELOPMENT AND STABILITY. BUT IN ANY EFFORT TO PURSUE THIS INTEREST, WE MUST IN THE FUTURE, AS WE HAVE IN THE PAST, RESPECT THE RIGHTS OF IRANIANS TO DECIDE HOW THEY SHALL ORDER THEIR OWN FUTURE.

HOW THE PRESENT SITUATION CAME ABOUT:

IF WE ARE TO UNDERSTAND FULLY THE NATURE OF THE PRESENT SITUATION, WE NEED TO EXAMINE HOW IT CAME ABOUT.

MODERNIZATION. IRAN HAS EXPERIENCED SINCE WORLD WAR II MANY OF THE PRESSURES AND INTERNAL STRAINS GENERATED BY MODERNIZATION THAT HAVE PROVED DESTABILIZING IN OTHER COUNTRIES. SOME OF THESE PROBLEMS ARE FAMILIAR ONES--RAPID POPULATION GROWTH, A MASSIVE SHIFT OF POPULATION FROM RURAL TO URBAN AREAS, LARGE NUMBERS OF UNEMPLOYED AND UNDEREMPLOYED URBAN WORKERS AND STUDENTS, AND A HOST OF OTHER PROBLEMS THAT ARISE WHEN A NATION AS DIVERSE AS IRAN PUSHES FOR DEVELOPMENT ON A NUMBER OF FRONTS SIMULTANEOUSLY. OF PARTICULAR SIGNIFICANCE IN IRAN HAS BEEN THE INCREASING ALIENATION BETWEEN THOSE LEADING AND

BENEFITTING FROM THE MODERNIZATION AND OTHERS WHOSE POSITION IN SOCIETY AND DEEPLY HELD RELIGIOUS CONVICTIONS ARE THREATENED BY IT.

THE "WHITE REVOLUTION": 1962-63. BY THE 1960'S, IRANIAN LEADERS HAD BECOME KEENLY AWARE OF GROWING DISCONTENT, A SENSE OF DRIFT IN IRAN, AND DEMANDS FOR FAR-REACHING REFORMS WITHIN A MORE BROADLY-BASED, RESPONSIVE, NON-AUTHORITARIAN POLITICAL SYSTEM. IN ORDER TO CHANNEL THESE PRESSURES INTO CONSTRUCTIVE RATHER THAN REVOLUTIONARY CHANGE, THE GOVERNMENT LAUNCHED A PROGRAM OF EVOLUTIONARY REFORM AND DEVELOPMENT PRESSED FROM THE TOP AT A FORCED-DRAFT PACE. THIS "WHITE REVOLUTION"
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PAGE 2 C O N F I D E N T I A L 25936
RUQMBI/AMEMBASSY ABU DHABI 2434
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C O N F I D E N T I A L

LIMITED OFFICIAL USE SECTION 04 OF 09 STATE 012254/04

CINCEUR FOR POLAD, TEL AVIV FOR PAO, DELIVER BY 9 A.M.

AIMED AT SOCIAL AND ECONOMIC MODERNIZATION WITH THE SHAH HIMSELF AS THE MAJOR AGENT IN THE REFORM PROCESS.

THE REFORM PROGRAM, FUELED BY RISING REVENUES IN THE 1968'S, QUICKLY RESULTED IN FAR-REACHING CHANGES, SUBSTANTIALLY IMPROVING THE LIVES OF MANY CITIZENS BUT DAMAGING THE POSITION OF OTHERS. LAND REDISTRIBUTION, FOR EXAMPLE, WEAKENED THE POWER OF THE BIG LANDLORDS AND ALSO WEAKENED THE CLERGY, REMOVING THEIR INDEPENDENT SOURCE OF INCOME AND MAKING THEM DEPENDENT ON PRIVATE DONATIONS. THE AMBITIOUS SCALE OF DEVELOPMENT PRODUCED A NEW ELITE OF THOSE CHARGED WITH PLANNING AND CARRYING OUT THE NEW PROGRAMS, BUT PLANS WERE MADE AND IMPLEMENTED WITH LITTLE PUBLIC CONSULTATION. EXPANSION IN THE PRIVATE SECTOR GAVE RISE TO A NEW CLASS OF ENTREPRENEURS, WHILE THE INTEREST OF BAZAAR MERCHANTS AND OTHER TRADITIONAL ELEMENTS OF SOCIETY WERE NEGLECTED. THERE WERE INCREASED OPPORTUNITIES FOR EDUCATION, BUT RESTRICTIONS STILL LIMITED THE PARTICIPATION OF THE NEWLY EDUCATED IN THE POLITICAL PROCESS, AND MORE WERE TRAINED THAN COULD BE EMPLOYED IN POSITIONS THEY FOUND REWARDING.

CONFIDENCE AND GROWTH: 1963-76. THE ECONOMIC SUCCESSES OF THE WHITE REVOLUTION HEAVILY OVERSHADOWED THE ABSENCE OF

PAGE 2 C O N F I D E N T I A L 80110101

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A PARALLEL ADVANCE IN THE POLITICAL SYSTEM. BY 1976, IT APPEARED TO MOST OBSERVERS OF THE IRANIAN SCENE THAT IRAN'S APPROACH TO MODERNIZATION HAD PRODUCED SUBSTANTIAL PROGRESS. AS A RESULT OF THE REFORM PROGRAM, IRAN WAS BEING TRANSFORMED INTO A MODERN ECONOMIC POWER. THE FUTURE LOOKED BRIGHT. PROSPERITY SEEMED ASSURED THROUGH RAPIDLY INCREASING OIL REVENUES. BY 1976 THERE WAS SOLID ACHIEVEMENT, ALTHOUGH ECONOMIC AND POLITCAL DEVELOPMENT CONTINUED TO MOVE ON SEPARATE TRACKS AT VERY DIFFERENT SPEEDS.

PROBLEMS AND PRESSURES: 1976-78. THE NEW PROSPERITY DID NOT ENTIRELY MASK THE PROBLEMS PRODUCED BY THE CONCENTRATION OF POLITICAL POWER AT THE APEX OF GOVERNMENT AND THE ABSENCE OF POLITICAL INSTITUTIONS THAT COULD DEAL WITH THE TRAUMA OF MODERNIZATION. MOST PROMINENT AMONG THE CAUSES OF DISSATISFACTION WERE POPULAR RESENTMENT OF WHAT WAS SEEN AS WIDESPREAD CORRUPTION, HARSH REPRESSION, SOME INEPTITUDE IN HIGH PLACES, DISREGARD FOR THE DEEP RELIGIOUS FEELINGS OF THE POPULATION, IMBALANCE BETWEEN REVENUES AND EXPENSES, SHORTCOMINGS IN PLANNING AND CARRYING OUT AMBITIOUS PROJECTS, RISING UNEMPLOYMENT IN THE CITIES AS THE CONSTRUCTION BOOM BEGAN TO SUBSIDE, INSUFFICIENT JOB OPPORTUNITIES FOR EVER LARGER NUMBERS OF GRADUATING STUDENTS, INEQUITABLE DISTRIBUTION OF THE BENEFITS OF DEVELOPMENT, SACRIFICE OF CIVILIAN PROGRAMS FOR MILITARY PRODUCRMENT, AND A HIGH RATE OF INFLATION THAT OUTSTRIPPED WAGE INCREASES AND FRUSTRATED EXPECTATIONS FOR A STEADILY RISING STANDARD OF LIVING. THESE GRIEVANCES AND THE ABSENCE OF POLITICAL OUTLETS FOR AFFECTING GOVERNMENT POLICY LED MODERATE SECULAR OPPOSITION LEADERS TO MAKE COMMON CAUSE WITH SIGNIFICANT ELEMENTS OF THE MUSLIM CLERGY.

ON RESPONSE TO INCREASING POLITICAL FERMENT AND CRITICISM IN 1976 AND 1977, THE GOVERNMENT SPONSORED CAMPAIGNS AGAINST CORRUPTION IN THE PUBLIC AND PRIVATE SECTORS, REORGANIZED ITSELF TO CURB WASTE AND PROMOTE EFFICIENCY, AND GAVE AN OFFICIAL POLITICAL PARTY A
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DEPARTMENT OF DEFENSE

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PAGE 2 C O N F I D E N T I A L 23938
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C O N F I D E N T I A L

LIMITED OFFICIAL USE SECTION 05 OF 09 STATE 012254/05

CINCEUR FOR POLAD, TEL AVIV FOR PAO, DELIVER BY 9 A.M.

GREATER ROLE WITHOUT INFRINGING ON ROYAL AUTHORITY. MOVES TO IMPROVE THE HUMAN RIGHTS SITUATION WERE DIRECTED AT ELIMINATING TORTURE AND EXTREME PUNISHMENTS IN THE PRISONS AND AMNESTYING POLITICAL PRISONERS RATHER THAN AT ESTABLISHING NEW POLITICAL INSTITUTIONS. THE GOVERNMENT'S MEASURES EVENTUALLY INCLUDED ENCOURAGEMENT OF "CONSTRUCTIVE CRITICISM" TO PROMOTE CITIZEN PARTICIPATION IN GOVERNMENT, AS WELL AS EFFORTS TO SLOW DOWN THE RAPID RATE OF ECONOMIC GROWTH THAT HAD CAUSED SEVERE DISLOCATIONS IN THE SOCIETY. THESE CHANGES, HOWEVER, DID NOT SATISFY THE DEMANDS OF LARGE NUMBERS OF IRANIANS FOR A MORE OPEN POLITICAL SYSTEM.

BY THE END OF 1977, IRANIAN AND FOREIGN OBSERVERS SAW THESE MOVES AS THE FIRST RESULTS OF THE OFFICIAL POLICY OF LIBERALIZING IRANIAN POLITICAL LIFE THAT HAD STARTED IN 1976. THOSE STEPS, HOWEVER, DID NOT YET INCLUDE MOVEMENT TOWARD BASIC POLITICAL CHANGE.

BY EARLY 1978, WIDESPREAD DISRUPTIONS HAD BEGUN AND

SYMPATHY WAS SHOWN BY STUDENT DEMONSTRATIONS ABROAD. BY MID-YEAR IT WAS CLEAR THAT A NEW POLITICAL DYNAMIC WAS EMERGING. RELIGIOUS FIGURES TOOK THE LEAD

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IN EXPRESSING OPPOSITION TO THE GOVERNMENT. THE SHAH PUBLICLY STATED HIS INTENTION TO PURSUE LIBERALIZATION, LOOKING TOWARD FREE ELECTIONS. BY LATE AUGUST, HOWEVER, IT WAS APPARENT THAT THE GOVERNMENT HAD UNDERESTIMATED THE DEPTH OF DISSATISFACTION. A NEW GOVERNMENT WAS INSTALLED AT THAT TIME WHICH PROMISED FREEDOM OF ACTIVITY FOR LEGITIMATE POLITICAL PARTIES. A FEW DAYS LATER IT WAS FORCED TO DECLARE MARTIAL LAW IN TEHRAN AND ELEVEN OTHER CITIES IN RESPONSE TO MASSIVE DEMONSTRATIONS. BY THE END OF OCTOBER, STRIKES AND DISORDERS HAD BECOME WIDESPREAD. OIL PRODUCTION HAD DROPPED DRAMATICALLY, AND THE GOVERNMENT APPARATUS WAS CEASING TO FUNCTION. WITH MASSIVE RIOTING IN EARLY NOVEMBER, THE CRISIS HAD BECOME FULLBLOWN AND A MILITARY GOVERNMENT WAS INSTALLED.

TODAY, THE SITUATION IN IRAN AS WE SEE IT AT THIS MOMENT CONSISTS OF THE FOLLOWING ELEMENTS: WIDESPREAD STRIKES AND DEMONSTRATIONS HAVE BROUGHT THE IRANIAN ECONOMY TO A NEAR HALT. MANY PEOPLE, AT LEAST IN THE MAIN CITIES, ARE NOT WORKING AND ARE SUFFERING SHORTAGES OF KEY COMMODITIES. THE BANKING SYSTEM HAS NOT BEEN FUNCTIONING AND PETROLEUM PRODUCTION DOES NOT MEET DOMESTIC NEEDS. ACTIVIST RELIGIOUS LEADERS AND MANY MEMBERS OF THE POLITICAL OPPOSITION HAVE BEEN PRESSING FOR THE SHAH'S IMMEDIATE DEPARTURE FROM IRAN OR FOR HIS ABDICATION. THE SHAH HAS LEFT IRAN ON VACATION. A REPRESENTATIVE REGENCY COUNCIL HAS BEEN NAMED TO PERFORM ITS CONSTITUTIONAL FUNCTIONS IN THE ABSENCE OF THE SHAH. PRIME MINISTER BAKHTIAR'S NEW GOVERNMENT FACES THE TASKS OF RESTORING NORMAL LIFE IN THE COUNTRY AND RECONCILING POLITICAL ELEMENTS THAT HAVE OPPOSED EACH OTHER.

IN SHORT, IRAN HAS BEEN THROUGH A DECADE AND A HALF OF RAPID GROWTH AND SOCIAL CHANGE WHILE HER POLITICAL INSTITUTIONS HAVE NOT EVOLVED COMMENSURATELY. THE PEOPLE MOST AFFECTED BY CHANGE ARE NOW DEMANDING A GREATER ROLE IN DETERMINING IRAN'S FUTURE BUT HAVE NOT YET FOUND ORDERLY WAYS OF EXPRESSING THEIR VIEWS ON IRAN'S
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LIMITED OFFICIAL USE SECTION 06 OF 09 STATE 012254/06

CINCEUR FOR POLAD, TEL AVIV FOR PAO, DELIVER BY 9 A.M.

FUTURE COURSE AND SHAPING THEIR OWN DESTINY.

WHY AN EXPLOSION? WITH HINDSIGHT, THE STORY APPEARS DECEPTIVELY CLEAR AND SIMPLE, BUT IT IS NOT SO SIMPLE.

SOME ANALYSTS BOTH IN AND OUT OF GOVERNMENT HAVE POINTED OVER THE YEARS TO VARIOUS POINTS OF WEAKNESS IN THE IRANIAN ECONOMIC, SOCIAL, AND POLITICAL SYSTEMS. BY MID-1978, JUST AS THE LEADERSHIP IN IRAN BEGAN TO REACT TO GROWING DISCONTENT, ANALYSTS IN WASHINGTON WERE POINTING OUT THAT IRAN'S RAPID ECONOMIC GROWTH HAD NOT PRODUCED POLITICAL PARTICIPATION TO MATCH AND THAT THE GOVERNMENT WOULD FIND IT NECESSARY TO SHARE POLITICAL POWER MORE BROADLY.

SINCE 1978 A NUMBER OF DEVELOPMENTS HAVE REINFORCED EACH OTHER TO DEEPEN EXISTING DISSATISFACTIONS AND TO ACCELERATE THE CRISIS IN UNPREDICTABLE WAYS. SOME OF THOSE ISSUES WERE STIMULATED BY THE VERY SUCCESS OF THE ECONOMIC MODERNIZATION ITSELF. AN ECONOMIC DOWNTURN WITH SHARPLY INCREASED UNEMPLOYMENT AND INFLATION ADDED TO DISCONTENT AS WELL AS TO A POOL OF UNEMPLOYED WHO NO LONGER HAD A STAKE IN EXISTING ECONOMIC ACTIVITY. WHILE THE IRANIAN GOVERNMENT WAS TAKING CERTAIN STEPS TO ALLOW

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PAGE 3 C O N F I D E N T I A L
FREER EXPRESSION OF CRITICISM AND TO IMPROVE ITS PERFORMANCE IN ASSURING HUMAN RIGHTS, BASIC GRIEVANCES REMAINED. IN THIS CONTEXT, MASSIVE ANTI-GOVERNMENT DEMONSTRATIONS PROTESTING ASPECTS OF THE SHAH'S PROGRAM TOOK PLACE IN EARLY 1978, THE BEGINNING OF THE CYCLE OF ACTION AND COUNTERACTION THAT HAS CHARACTERIZED THE IRANIAN SCENE SINCE THEN.

THE ISSUES AHEAD. THE MAIN ISSUE FOR THE IRANIAN GOVERNMENT IS TO END THE BLOODSHED AND RESTORE ORDER SO A NEW NATIONAL CONSENSUS CAN BE FORGED ON HOW IRAN SHOULD BE GOVERNED AND WHAT ITS PRIORITIES AT HOME AND ABROAD SHOULD BE. THE IMMEDIATE CHALLENGE IS FOR THE REGENCY COUNCIL AND THE NEW CIVILIAN GOVERNMENT TO WIN ENOUGH POPULAR SUPPORT SO THAT THE VIOLENCE CAN BE ENDED AND NORMAL ECONOMIC ACTIVITY CAN BE RESTORED. IN ADDITION TO ENDING THE SUFFERING WHICH PEOPLE HAVE EXPERIENCED IN RECENT MONTHS, IT IS ESSENTIAL TO CREATE AN ENVIRONMENT FOR NATIONAL DELIBERATIONS ON A LONG-TERM POLITICAL SOLUTION FOR IRAN'S PROBLEMS.

IN A COUNTRY AS COMPLEX AS IRAN QUICK SOLUTIONS ARE NOT TO BE EXPECTED. IN A COUNTRY WHICH HAS SUFFERED SO MUCH VIOLENCE, THERE WILL BE NO PAINLESS ANSWERS. DOMESTIC PEACE AND PROBABLY CONSIDERABLE TIME WILL BE NEEDED FOR THE IRANIAN PEOPLE TO WORK OUT A NEW CONSENSUS ON THEIR POLITICAL FUTURE. IT IS IMPORTANT THAT THIS PROCESS BE ORDERLY. WE CANNOT PREDICT WHAT DIRECTION IRAN WILL CHOOSE, BUT IRANIANS ALONE MUST MAKE THE DECISION.

REGIONAL IMPLICATIONS:

THE QUESTION MOST FREQUENTLY POSED ABOUT THE IMPLICATIONS OF THE CURRENT CRISIS IN IRAN IS: DO WE SEE THE INSTABILITY IN IRAN ALONG WITH RECENT DEVELOPMENTS IN AFGHANISTAN, NORTH AND SOUTH YEMEN, THE HORN OF AFRICA AS PIECES IN A PATTERN OF INSTABILITY WHICH WILL CHANGE THE POLITICAL ORIENTATION OF THE STRATEGIC MIDDLE EAST?

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PAGE 2 C O N F I D E N T I A L 23944
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C O N F I D E N T I A L

LIMITED OFFICIAL USE SECTION 07 OF 09 STATE 012254/07

CINCEUR FOR POLAD, TEL AVIV FOR PAO, DELIVER BY 9 A.M.

FOUR POINTS NEED TO BE STATED:

FIRST, WE , OF COURSE, RECOGNIZE THAT FUNDAMENTAL CHANGES ARE TAKING PLACE ACROSS THIS AREA OF WESTERN ASIA AND NORTHEASTERN AFRICA--ECONOMIC MODERNIZATION, SOCIAL CHANGE, A REVIVAL OF RELIGION, RESURGENT NATIONALISM, DEMANDS FOR BROADER POPULAR PARTICIPATION IN THE POLITICAL PROCESS. THESE CHANGES ARE GENERATED BY FORCES WITHIN EACH COUNTRY. WE MUST DIFFERENTIATE BETWEEN THEM AND RESIST THE IMPULSE TO OVERSIMPLIFY. ECONOMIC, SOCIAL, AND POLITICAL DEVELOPMENT ARE COMPLEX PROCESSES WHICH WE STILL DO NOT FULLY UNDERSTAND. OUR POLICY IN THE FUTURE AS IN THE PAST 30 YEARS WILL BE TO WORK AS WE CAN WITH THE COUNTRIES UNDERGOING THESE CHANGES TO HELP THEM FIND CONSTRUCTIVE SOLUTIONS AND TO EMERGE FROM PERIODS OF CHANGE WITH NEW STABILITY. AS LONG AS THESE NATIONS ARE GENUINELY INDEPENDENT AND FREE TO PURSUE THEIR OWN POLICIES WITHOUT INTIMIDATION, THIS WILL CONTRIBUTE TO THE KIND OF WORLD WHICH IS THE GOAL OF THE UNITED STATES.

SECOND, INSTABILITY IN ANY COUNTRY IN A STRATEGIC AREA BECOMES A FACTOR IN GLOBAL POLITICS. WE ARE IN CLOSE TOUCH WITH OUR FRIENDS AND ALLIES IN THE MIDDLE EAST

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AND ELSEWHERE AND SHARE THEIR CONCERN THAT THE SOLUTION OF THE PROBLEMS IN IRAN NOT INCREASE THE DANGER TO THEIR OWN INDEPENDENCE. WE WILL CONTINUE TO WORK WITH ALL OF THEM TO MINIMIZE THAT DANGER. WE WILL CONTINUE TO MAKE CLEAR OUR VIEW THAT WE SHARE WITH THEM THE OBJECTIVES OF ASSURING THE STABILITY, THE SECURITY, AND THE NATIONAL INDEPENDENCE OF EACH NATION IN THE AREA. WE BELIEVE OUR COMMON PURPOSE WILL PROVIDE THE BASIS FOR FURTHER CLOSE COOPERATION.

THIRD, OUR POSITION IN THIS STRATEGICALLY IMPORTANT AREA WILL REMAIN STRONG OVER THE LONG RUN AS LONG AS MOST OF THE COUNTRIES THERE ARE ALLOWED TO PURSUE THEIR OWN PATHS TO DEVELOPMENT AND PROGRESS FREE FROM OUTSIDE INTERFERENCE. OUR RESPECT FOR DIVERSITY AND PLURALISM,

OUR ENCOURAGEMENT OF HUMAN FREEDOMS AND LIBERTIES, THE APPEAL OF WESTERN ECONOMIC AND TECHNOLOGICAL STRENGTH, AND OUR DEDICATION TO DEMOCRATIC PRINCIPLES ALL EVOKE A STRONG RESONANCE AMONG THE PEOPLES AND NATIONS THROUGHOUT THE AREA. THEY ALSO KNOW THAT WE ARE PREPARED TO SUPPORT THEIR OWN EFFORTS TO STRENGTHEN THEIR DEFENSIVE CAPABILITIES WITHOUT SEEKING A SPECIAL POSITION FOR OURSELVES THAT THEY DO NOT WANT.

FOURTH, THE CHANGES WE ARE WITNESSING ACROSS THIS AREA OF WESTERN ASIA AND NORTHEASTERN AFRICA CONTAIN THE SEEDS OF PROGRESS AS WELL AS THE CAUSES OF CRISIS. SOME PARTS OF THIS AREA ARE AMONG THE FASTEST GROWING AND RESOURCE-RICH NATIONS OF THE WORLD. SOME ARE AMONG THE MOST TRADITIONAL AND THE POOREST. THE CHALLENGE WE AND OUR FRIENDS FACE IS HOW TO SEIZE THE OPPORTUNITY TO CHANNEL CHANGE TOWARD CONSTRUCTIVE RESULTS -- NOT SIMPLY TO REACT TO IT AS AN UNWELCOME SOURCE OF INSTABILITY AND CONFLICT. IN SAYING THIS, WE DO NOT MINIMIZE THE DANGERS FOR AMERICAN INTERESTS, BUT WE WANT ALSO TO KEEP OUR SIGHTS ON WHAT WILL BE THE INTERESTS OF THE PEOPLE IN THIS AREA.

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C O N F I D E N T I A L

LIMITED OFFICIAL USE SECTION 08 OF 09 STATE 012254/08

CINCEUR FOR POLAD, TEL AVIV FOR PAO, DELIVER BY 9 A.M.

U.S. POLICY:

U.S. PULICY TOWARD IRAN HAS BEEN BASED ON THREE CONSISTENT PRINCIPLES AS EVENTS THERE HAVE EVOLVED OVER THE PAST SEVERAL MONTHS:

1. WE HAVE REPEATEDLY MADE IT CLEAR THAT DECISIONS AFFECTING THE FUTURE OF IRAN AND THE RELATIONSHIP BETWEEN THE IRANIAN PEOPLE AND THEIR GOVERNMENT ARE DECISIONS WHICH MUST BE MADE IN IRAN BY IRANIANS. WE SEEK NO ROLE IN DECIDING THOSE QUESTIONS, AND WE CONSIDER ANY EXTERNAL INFLUENCE IMPROPER.

2. THE U.S. GOVERNMENT HAS WORKED WITHIN THE INSTITUTIONAL FRAMEWORK OF IRAN UNDER IT S CONSTITUTION WITH THE DULY ESTABLISHED AUTHORITIES OF IRAN AS SPECIFIED IN THE IRANIAN CONSTITUTION. THERE ARE CONSTITUTIONAL PROVISIONS FUR CHANGE, AND WE SUPPORT THE DECISIONS OF THE IRANIAN GOVERNMENT WHEREVER AND HOWEVER WE CAN APPROPRIATELY BE HELPFUL.

3. WE HAVE SUPPORTED IRAN'S INDEPENDENCE. WE HAVE TAKEN THE POSITION THAT NO OUTSIDE POWER SHOULD EXPLOIT INSTABILITY IN IRAN--OR ANY OTHER COUNTRY--FOR ITS OWN

PAGE 2 C O N F I D E N T I A L 08110101

PAGE 3 C O N F I D E N T I A L 23945
ADVANTAGE. THE OVERRIDING AMERICAN OBJECTIVE FOR IRAN IS

SIMPLY THAT IT SHOULD HAVE THE FREEDOM TO WORK OUT ITS OWN FUTURE FREE FROM SUCH INTERFERENCE.

THESE PRINCIPLES HAVE BEEN APPLIED CONSISTENTLY THROUGHOUT THE LAST YEAR OF TURMOIL IN IRAN, AND THEY WILL CONTINUE TO BE OUR GUIDELINES IN THE FUTURE.

WITHIN THE GENERAL CONTEXT OF THOSE PRINCIPLES WE HAVE PURSUED THESE KEY OBJECTIVES:

FIRST, WE HOPE TO SEE THE END OF BLOODSHED, SO THE PEOPLE OF IRAN CAN RETURN TO NORMAL LIFE. ONLY IN SUCH CIRCUMSTANCES CAN THERE BE RATIONAL DISCUSSION OF A POLITICAL SOLUTION TO IRAN'S CURRENT PROBLEMS WHICH WILL RESTORE STABILITY THERE. WE WILL ENCOURAGE ALL PARTIES TO SEEK POLITICAL ENDS BY PEACEFUL MEANS.

SECOND, WE WANT TO MAINTAIN A CLOSE AND FRIENDLY RELATIONSHIP WITH AN INDEPENDENT, STABLE, AND SECURE IRAN. WE BELIEVE THE INTERESTS OF IRAN AND OF THE UNITED STATES ARE CLOSELY INTERTWINED, AND WE SEEK AN ENVIRONMENT OF MUTUAL RESPECT AND POSITIVE COOPERATION. WE BELIEVE THIS WILL SERVE THE INTERESTS OF IRAN, OF THE UNITED STATES AND OF THE FREE WORLD.

THIRD, WE SEEK A STABLE AND PROSPEROUS IRAN WHICH CAN PLAY ITS RIGHTFUL ROLE IN THE REGION AND THE INTERNATIONAL COMMUNITY. WE ARE PREPARED TO HELP IRAN--ON THE TECHNICAL LEVEL, ON THE GOVERNMENTAL LEVEL AND ON THE DIPLOMATIC LEVEL--TO RESTORE ITS PRODUCTIVITY AND TO REGAIN THE INTERNATIONAL CONFIDENCE IT HAS EARNED OVER THE PAST DECADE. THE RESUMPTION OF MAJOR OIL EXPORTS WILL BE IMPORTANT BOTH TO THE ECONOMY OF IRAN AND TO THE ECONOMY OF THE WORLD.

WE BELIEVE THAT THESE OBJECTIVES SERVE NOT ONLY THE INTERESTS OF OUR OWN COUNTRY BUT ALSO THE INTERESTS OF
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JOINT CHIEFS OF STAFF

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C O N F I D E N T I A L

LIMITED OFFICIAL USE FINAL SECTION OF 09 STATE 012284/09

CINCEUR FOR POLAD, TEL AVIV FOR PAO, DELIVER BY 9 A.M.

THE IRANIAN PEOPLE. WE BELIEVE THEY OFFER A PRACTICAL BASIS FOR COOPERATION.

WHAT LIES AHEAD?

IRAN IS IN THE MIDST OF A MAJOR SOCIAL CRISIS. WE HAVE NO ILLUSIONS THAT THIS PROCESS WILL BE RESOLVED EASILY, AND IT WOULD SERVE NO PURPOSE FOR US TO SPECULATE ON FUTURE TWISTS AND TURNS OF EVENTS.

THE AMERICAN PEOPLE AND THE PEOPLE OF IRAN SHARE BASIC

AGREEMENT ON FOUR FUNDAMENTAL VALUES:

--FIRST, WE BOTH HAVE STRONG RELIGIOUS HERITAGES. THE PEOPLE OF BOTH COUNTRIES BELIEVE IN THE IMPORTANCE OF A LIFE THAT IS GUIDED BY MORAL PRINCIPLES. WE BELIEVE THOSE PRINCIPLES MUST GUIDE A GOVERNMENT THAT IS TRULY JUST.

--SECOND, WE SHARE A BELIEF IN THE RIGHT OF THE PEOPLE TO EXPRESS THEMSELVES POLITICALLY THROUGH INSTITUTIONS CONSTITUTED BY THEM. WE BOTH BELIEVE THAT IT IS FOR THE IRANIAN PEOPLE TO DECIDE HOW THEY WILL GOVERN

PAGE 2 C O N F I D E N T I A L 09110181

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THEMSELVES, JUST AS IT IS FOR THE AMERICAN PEOPLE TO CHOOSE THEIR OWN GOVERNMENT.

--THIRD, BOTH OF US BELIEVE IN THE USE OF OUR NATIONAL WEALTH FOR THE BETTERMENT OF OUR PEOPLE. THE UNITED STATES REMAINS WILLING TO HELP IRAN DEVELOP THE POTENTIAL OF THE COUNTRY.

--FINALLY, BOTH AMERICANS AND IRANIANS WANT TO SEE AN IRAN THAT IS TRULY INDEPENDENT. WE HAVE NO ASPIRATION TO DICTATE THE POLICIES OF THE IRANIAN GOVERNMENT.

ON THE BASIS OF THESE SHARED VIEWS AND OUR COMMON INTERESTS, WE WILL MAKE EVERY EFFORT TO ASSURE A CONTINUED CLOSE RELATIONSHIP BETWEEN THE UNITED STATES AND IRAN.

IN LOOKING TO THE FUTURE, THE UNITED STATES WILL CONTINUE TO WORK WITH THE LEADERS OF IRAN IN THEIR EFFORT TO CONSOLIDATE THE CIVILIAN GOVERNMENT WITH POPULAR SUPPORT FOR RESTORING ORDER AND NORMAL LIFE AND BUILDING A SOUND POLITICAL FOUNDATION FOR IRAN'S CONTINUED PROGRESS AND INDEPENDENCE. VANCE

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BRUSSELS ALSO FOR USEEC

E O 12065: GDS 1/28/85 (GRIBBLE, MARION L.) OR-P
TAGS: EEC, PARM, PEPR, DA, FR, IR, KF
SUBJECT: FRENCH FOREIGN MINISTER FRANCOIS-PONCET'S VISIT TO COPENHAGEN

ACTION

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ACTION: ECON5

INFO: AMB DCM ADM POL2 PM OR ICA CHRON R 9

1. (C) ENTIRE TEXT.

2. SUMMARY: MFA OFFICE ON JANUARY 26 PROVIDED US WITH A REVIEW OF FRENCH FOREIGN MINISTER FRANCOIS-PONCET'S BRIEF JANUARY 23 VISIT TO COPENHAGEN. TOPICS DISCUSSED INCLUDED THE EUROPEAN MONETARY SYSTEM (EMS) AND EMS/MONETARY COMPENSATION AMOUNTS (MCA) LINKAGE, THE EC COUNCIL/PARLIAMENT BUDGET DISPUTE, DISARMAMENT, IRAN AND ITS IMPLICATIONS FOR A MIDDLE EAST SETTLEMENT, AND INDO-CHINA. END SUMMARY.

3. FRENCH FOREIGN MINISTER FRANCOIS-PONCET ARRIVED EARLY EVENING JANUARY 23 AND LEFT AT 12:00 PM THE SAME NIGHT. VISIT WAS ONE OF A SERIES HE IS UNDERTAKING FOLLOWING HIS APPOINTMENT. WHILE IN COPENHAGEN, HE HAD A HALF HOUR MEETING WITH DANISH FOREIGN MINISTER HENNING CHRISTOPHERSEN AND A VERY FEW OTHER OFFICIALS, FOLLOWED BY A WORKING DINNER HOSTED BY CHRISTOPHERSEN.

4. DURING THE PRE-DINNER MEETING THREE TOPICS WERE DISCUSSED: THE EMS, LINKAGE OF MONETARY COMPENSATION AMOUNTS TO INAUGURATION OF THE EMS, AND THE DISPUTE BETWEEN THE EC COUNCIL AND THE EUROPEAN PARLIAMENT OVER THE EC BUDGET. MFA OFFICER SAID THAT THE DANES SAW "EYE-TO-EYE" WITH THEIR VISITOR ON THESE ISSUES.

5. THE WORKING DINNER WAS "MORE DINNER THAN WORKING." THE NEW FRENCH FOREIGN MINISTER SPOKE OF HIS GOVERNMENT'S PROPOSED CONFERENCE ON DISARMAMENT IN EUROPE (CDE); THE SITUATION IN IRAN; THE LATTER'S IMPLICATIONS

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FOR A MID EAST SETTLEMENT: AND THE SITUATION IN SOUTHEAST ASIA.

A. ON THE CDE, FRANCOIS-PONCET PUT PRIMARY EMPHASIS ON PRINCIPLES UNDERLYING THE PROPOSAL--E.G., THE RIGHT OF EVERY COUNTRY TO ASSURE ITS OWN SECURITY. HE CONFIRMED THAT CONVENTIONAL FORCES WERE TO BE ADDRESSED FIRST AND EMPHASIZED THE IMPORTANCE OF SATISFACTORY PROVISION FOR VERIFICATION. HE INDICATED THAT THE FRENCH WERE PREPARED TO BE PATIENT ABOUT PROGRESS TOWARD CONVENING SUCH A CONFERENCE (HE DREW A PARALLEL TO THE 10-15 YEARS THAT THE USSR DEVOTED TO PURSUING THEIR PROPOSAL FOR A CSCE).

B. FRANCOIS-PONCET WAS PESSIMISTIC CONCERNING IRAN'S FUTURE AND SPOKE OF LIKELY "INSTABILITY AND ANARCHY". HE WAS CONCERNED THAT, AS A RESULT, EUROPE WOULD LATTER IN THE YEAR EXPERIENCE DIFFICULTIES IN OIL SUPPLY.

C. THE FRENCH FOREIGN MINISTER BELIEVED THAT EVENTS IN IRAN SERVED TO INCREASE THE FEELINGS OF INSECURITY IN ISRAEL AND EGYPT. ISRAEL, CONCERNED INTER ALIA WITH FUTURE OIL SUPPLIES, WOULD BE LESS FLEXIBLE IN CONCLUDING THE BILATERAL AGREEMENT WITH EGYPT AND LESS WILLING TO YIELD TERRITORY IT PRESENTLY OCCUPIES. HEIGHTENED INSECURITY WOULD ALSO RENDER MORE DIFFICULT CONCLSUION OF THE BROADER MID EAST SETTLEMENT ENVISAGED AT CAMP DAVID. FRANCOIS-PONCET SAID THAT THESE CIRCUMSTANCES COMPLICATE DEFINITION OF AN EC POSTURE IF THE ISRAELI-EGYPTIAN AGREEMENT IS CONCLUDED. HE ADDED THAT FOUR MONTHS AGO THE EC COULD SIMPLY HAVE APPLAUDED CONCLUSION OF THEAT AGREEMENT BUT NOW THE APPROPRIATE EC RESPONSE WAS UNCLEAR. (EMBASSY OFFICER PRESSED FOR ELABORATION OF THIS REMARK, BUT MFA OFFICER EXPLAINED THAT NONE WAS GIVEN AT THE DINNER.)

D. ON INDO-CHINA, THE FRENCH FOREIGN MINISTER TOOK A POSITION WHICH MFA OFFICER CHARACTERIZED AS THE SAME LINE AS THE U.S. AND DANES ARE TAKING: I.E., THE VIETNAMESE PRESENCE IN KAMPUCHEA WAS UNACCEPTABLY; SOME AID SANCTIONS ARE INDICATED, BUT THE DOOR SHOULD BE LEFT OPEN FOR THE VIETNAMESE IF THEY REPENT-- THE VIETNAMESE SHOULD UNDERSTAND THAT THE WEST REMAINED A "POTENTIAL PARTNER".

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CLASS S E C R E T WNINTEL NOFORN - NOCONTRACT - EXCON

COUNTRY: IRAN

SUBJECT: ECONOMIC DISCUSSIONS OF THE SUPPORTERS OF AYATOLLAH KHOMEINI (DOI: EARL FEB FEB1979)
IRANIAN UNIVERSITY PROFESSOR

SOURCE: AN [redacted] AND BUSINESS WRITER WHO HAS ACCESS TO THE RELIGIOUS OPPOSITION IN TEHRAN. HE HAS REPORTED PREVIOUSLY ON ECONOMIC AFFAIRS BUT HIS ACCESS TO THE RELIGIOUS COMMUNITY IS UNKNOWN.

1. THE ADVISORS AROUND AYATOLLAH RUHOLLAH K H O M E I N I ARE BEGINNING TO ADDRESS THEMSELVES TO THE QUESTION OF HOW THEY WILL DEAL WITH THE MASSIVE ECONOMIC PROBLEMS FACING IRAN WHEN THEY ASSUME POWER, AND TO THE FORMULATION OF CENTRAL PRINCIPLES TO GUIDE THEIR ECONOMIC PROGRAMS. ON THE WHOLE, THEY HAVE NOT GONE FAR BEYOND GENERAL STATEMENTS CONCERNING THE NATIONALIZATION OF PRINCIPAL UNITS OF PRODUCTION AND A RENEWED EMPHASIS ON AGRICULTURAL PRODUCTION. ESSENTIALLY THESE ADVISORS, AND KHOMEINI HIMSELF, ARE ATTEMPTING TO DEAL WITH THE QUESTION OF THE VERY NATURE OF THE IRANIAN ECONOMY. THEY ARE WILLING, IN EFFECT, TO ACCEPT A MUCH LESS "SOPHISTICATED" ECONOMY IF BY DOING SO THEY ARE ABLE TO SUBSTANTIALLY REDUCE THE FOREIGN PRESENCE IN IRAN AND THE PERCEIVED FOREIGN DOMINATION OF THE ECONOMY. THEY ARE ALSO QUESTIONING THE NEED TO PRODUCE THE EXPORT OIL AT THE SAME LEVELS THAT EXISTED PRIOR TO THE OIL STRIKES. CONCERNED WITH THE ABSORPTIVE CAPACITY OF THE IRANIAN ECONOMY, THEY BELIEVE THAT LOWER PRODUCTION RATES WILL ALLOW THEM TO HAVE A FIRMER GRIP ON THE ECONOMY ITSELF AND TO BETTER CONTROL THE DISTRIBUTION IT WILL BE HAVING.

2. DEALING WITH SPECIFIC AREAS, KHOMEINI AND HIS ADVISORS [illegible] CONTEMPLATING THE FOLLOWING ACTIONS:

A. AGRICULTURE - KHOMEINI BELIEVES THAT THE SHAH'S PROGRAM OF LAND REFORM WAS A FRAUD AND THAT IT DESTROYED THE PRODUCTIVITY OF MANY IRANIAN FARMLANDS BY BREAKING THEM UP INTO SMALL, UNECONOMIC PLOTS WITHOUT GIVING ANY OF THE FARMERS REAL FREEDOM. THE KHOMEINI-INSPIRED GOVERNMENT WILL GIVE GREATLY INCREASED EMPHASIS TO THE AGRICULTURAL SECTOR ALTHOUGH PRECISE PLANS FOR WHAT THEY INTEND TO DO REMAIN TO BE THOUGHT OUT.

B. LABOR - NO DEFINITE PLANS HAVE BEEN FORMULATED TO DEAL WITH THE QUESTION OF HOW TO HANDLE THE LABOR QUESTION BEYOND PLATITUDES CONCERNING INCREASED BENEFITS AND SOCIAL SERVICES FOR THE WORKING FORCE.

C. INDUSTRY - KHOMEINI AND HIS ADVISORS ARE SERIOUSLY CONTEMPLATING THE NATIONALIZATION OF ALL MAJOR PRODUCTIVE UNITS IN THE IRANIAN ECONOMY. BUSINESSES BELONGING TO BAHAI'S PARTICULARLY THE MAJOR APPLIANCE MANUFACTURER "ARJ", IS PROMINENTLY CITED IN THIS RESPECT, WILL BE THE SUBJECT OF SPECIAL ATTENTION. NO REAL PLANS FOR HOW THE NATIONALIZATION WILL BE CARRIED OUT OR HOW PLANNING AND CONTROLS OF THE PRODUCTION SECTOR OF THE ECONOMY WILL BE IMPLEMENTED ARE YET AVAILABLE.

D. BANKING - IN ACCORDANCE WITH ISLAMIC PRINCIPLES, BANKS WILL NO LONGER OPERATE IN ACCORDANCE WITH ACCEPTED WESTERN PRACTICES AND THEY TOO WILL BE NATIONALIZED. BANKS WILL STILL LOAN MONEY, BUT WILL NOT CHARGE INTEREST, SHARING INSTEAD IN THE PROFITS OF THE ENTERPRISE THAT THE LOAN FINANCES AND ABSORBING ANY LOSSES. POLICIES TOWARD SAVINGS AND OTHER BANK TRANSACTIONS REMAIN TO BE FORMULATED.

3. (SOURCE COMMENT: THE ECONOMIC THINKING OF KHOMEINI AND HIS ADVISORS REMAINS VERY IMPRECISE AND WHEN PRESSED FOR DETAILS, SUCH AS ON THE ISSUE OF HOW A NATIONALIZATION PROGRAM WOULD BE CARRIED OUT, THE ADVISORS RESPOND THAT THE DETAILS WILL BE WORKED OUT. MUCH OF THE THINKING APPEARS TO BE NAIVE AND MAY WELL CHANGE IF/WHEN THESE MEN HAVE TO MAKE HARD DECISIONS ABOUT THE ECONOMY AND ITS PRODUCTIVITY.)

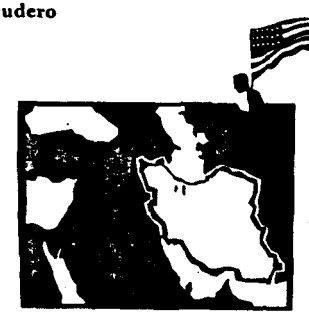
4. ACQ.: IRAN, TEHRAN (4 FEBRUARY 1979). FIELD REPORT NO.: DIT-10,438.

5. FIELD DISSEM: EMBASSY AND ECONOMIC COUNSELOR AT TEHRAN. SENT TO PARIS, KUWAIT, JIDDA, ABU DHABI, AMMAN, CAIRO, TEL AVIV, PANAMA, MUSCAT, NEW DELHI, KABUL, ISLAMABAD, KARACHI (PRINCIPAL OFFICERS ONLY).

REPORT CLASS S E C R E T WARNING NOTICE - INTELLIGENCE SOURCES AND METHODS INVOLVED - NOT RELEASABLE TO FOREIGN NATIONALS - NOT RELEASABLE TO CONTRACTORS OR CONTRACTOR/CONSULTANTS - DISSEMINATION AND EXTRACTION OF INFORMATION CONTROLLED BY ORIGINATOR. RVW 05FEB99. DRV DSC.1 BY RECORDED REPORTING OFFICER. ALL [illegible]ORTIONS CARRY CLASSIFICATIONS AND CONTROLS OF OVERALL DOCUMENT.

What Went Wrong in Iran?

Stanley T. Escudero



Throughout the post-war period and particularly since 1953, the United States maintained an extraordinarily intimate relationship with the Shah of Iran and his regime. We were instrumental in the overthrow of leftist/nationalist Premier Mossadegh and the return of the Shah from his brief European exile. We spent several billion dollars in various bilateral aid projects, many of which were well conceived and much appreciated. Based on our similar regional security interests and Iran's capacity to buy, we helped Iran build itself into the predominant Persian Gulf power. We had thousands of military and civilian advisers and technicians in the country. We were backing a strong autocrat who was farsighted enough to perceive the need for national development and, apparently, courageous enough to take the lead in the kinds of national economic and social reforms which would lead Iran into the 20th Century. The list could go on but, in short, we had it made.

Yet when I returned to Tehran in November 1978, after an absence of 3-1/2 years, the Shah was on his last leg. American officials were travelling in armored vehicles with armed guards to protect them, not against isolated groups of terrorists, but against mobs of ordinary Iranians. The Embassy and other U.S. and GOI installations were protected against similar threats by truckloads of Iranian soldiers with automatic weapons. Even so both the Embassy and our Consulate in Tabriz were attacked and the grounds of the latter were overrun. Later the Embassy itself was briefly captured. Virulent anti-American feelings were sweeping virtually every segment of Iranian society, and many of the strengths on which we had based our policy had become liabilities. The situation grew far worse after the Shah's departure in mid-January and the threat of renewed and heightened anarchy is very real.

Clearly our Iranian policy, which had served us well for over 30 years, had become irrelevant and in many ways harmful to our interests some time before the fall of the Shah. It is legitimate to ask what went wrong and why, with all our assets in Iran, we didn't see this coming.

Stan Escudero served two tours in Iran; the most recent a TDY assignment last November-January. He is currently in IO/UNP.

A complete description of the events and forces which led to the collapse of the Shah's dictatorship will be the subject of scholarly debate for some time to come and, in any case, it is well beyond the scope of this paper. However, it clearly was the result of a genuine internal revolution rather than externally orchestrated unrest.

Rather simplistically stated, the Shah's system of rule depended upon a firm hand at the top supported by a ruthless security mechanism and the financial capacity to reduce dissatisfaction through development programs, outright subsidy, and the co-optation of those who might otherwise have opposed the regime. Years of repression, corruption, mismanagement, sycophancy, hollow promises, and just general inefficiency weakened both of these pillars of the regime and blinded many Iranians, who are cynical and distrustful of their government in any event, to the many significant and worthwhile accomplishments of imperial rule. Rapid modernization and burgeoning educational opportunities also helped set the stage for the Pahlavi collapse.

Two developments, in my opinion, delivered the coup de grace. The first, and most important, was the 1974 decision taken by the Shah personally to use Iran's vastly expanded oil income to force national development, accepting the risk that production might not increase fast enough to meet increased demand and thereby offset inflation. When this decision was made Iran was already experiencing double-digit inflation, and the country lacked the physical infrastructure, the trained manpower, and the managerial expertise to absorb anything half so ambitious. These deficiencies were magnified by the Shah's devotion to his outsized and unnecessary military buildup. Consequently, in almost every instance the development programs failed but inflation succeeded. It is now running at something over 50 percent. As economic conditions worsened the disparity in income distribution became more obvious, the disaffection of the people grew, and the capacity of the regime to use its financial resources as a tool to maintain itself was diminished.

The second development was the advent of the Carter administration's human rights policy. Many Iranians hold obstinately to the belief that the policy of their country has, since the late 19th Century, been directed by a foreign hand, first Russian or British and, since 1953, American. Some oppositionists interpreted the human rights policy as a U.S. step away from the Shah and a consequent weakening of the Throne. They were encouraged and became more active. At the same time the Shah, desiring a political climate which would permit the smooth transfer of power to his son, and perhaps also as a reaction to human rights pressures, began taking steps to liberalize Iranian political life.

Generally speaking, Iranians have a peculiar view of authority - they regard it as a barrier in the way of individual accomplishment, and they try to circumvent it wherever possible. Once circumvented, authority is contemptible; authority which cannot be circumvented is accorded grudging respect.

The Shah's absolute rule had established clearly defined parameters of dissent. His liberalizing moves and the impact of our human rights statements altered these parameters without establishing new ones. Unwilling to believe that the regime would lessen its controls except through weakness, the Iranian people began pushing in all directions, attempting to determine the new limits of individual political behavior. To date they haven't found any as the Shah was unable or unwilling to take the harsh measures which might have re-established his position, and the new government has yet to develop the instruments of power,

the managerial expertise, and the national cohesion which it must have if it is to succeed.

At the appropriate moment the exiled Islamic leader, Ayatollah Ruhollah KHOMEINI, revitalized his opposition and became a symbol and a focus of the rage of the people. Just as it had in every successful national revolutionary movement in modern Iranian history, the Islamic establishment offered a respectable Iranian umbrella for the coalition of disparate opposition elements and lent to the movement its invaluable capacity to mobilize enormous numbers of people.

This same revolutionary coalition has brought about, directly or indirectly, the death of one shah, the ouster of another, and the temporary exile of a third within the last 83 years. Now it has brought down what may have been the last shah. Of all the shahs who have ruled Iran since the establishment of the Qajar dynasty in 1796, only one has come to the throne through an untroubled transfer of power. Based on historical precedent alone, the threat posed to Mohammad Reza Pahlavi by the Iranian revolution should have come as no surprise. But it did.

Simply put, I think we were unprepared for the collapse of the Pahlavi Regime because we did not want to know the truth.

It is an exaggeration, but not such a great one, to say that the Shah was a U.S. puppet in the years immediately following 1953. But with the passage of years he began to become more sure of himself, more independent, and we began to deal with him on a more nearly equal basis. With the growth of this healthier relationship, however, came the growth of a fundamental error of U.S. policy - the misperception that U.S. interests in Iran were coterminous with those of the Pahlavi Regime. By sometime around 1968, as nearly as I could determine from old files, it had become the unspoken policy of the Department and the Embassy (and possibly also the Administration, although a junior officer would never be in a position to be certain of this) to curtail reporting critical of the Shah. During my own 1971-75 assignment to Tehran, the same restrictive policy prevailed. When I raised the question in general terms, I was informed that critical information could be leaked and misused by the Shah's enemies in Washington. On a specific matter, when I was instructed to report nothing concerning a temporary marriage which the Shah had contracted with a young Iranian woman, I was assured that the matter was covered fully in official-informal letters. Hardly an adequate means of informing the intelligence community of a potentially significant development.

Through imposition of this essentially dishonest policy over the past decade, the Department denied itself information which might have enabled the United States to be better prepared for recent Iranian developments.

This error was compounded by the restriction of Embassy contacts to those whose intercourse with us would not displease the Shah. Contacts with old opposition leaders and with the Islamic establishment were forbidden. Instead the Embassy restricted itself primarily to the same circle of contacts which it had had for 25 years. By and large these people were supporters of the Shah. Their wealth, power, influence, and to some extent their physical well-being rested upon their retention of imperial favor. But in seeing Iran through the eyes of this limited group we were seeing it through an imperial prism. It is not surprising that the bulk of the reporting which flowed from these sources was favorably inclined toward the Shah and his programs.

Even had we been inclined to report the views of all elements of Iranian society, we would have been hindered by a lack of officers who are truly competent in Farsi.

Contacts with Islamic and bazaari leaders are virtually impossible without fluency in that language and the same is true for many university professors and students. A traveler in the provinces is cloaked in ignorance if he cannot speak the language of the people.

The Soviets give their specialists five years of oriental studies before sending them to Iran, and when they arrive they can speak, read, and write Farsi very well indeed. It would not be practical to consider anything like the Soviet program, but our officers are fortunate to get 10 months of Farsi training. Before they are thrown into the Tehran environment, where English is widely spoken, they should solidify the basics which they learned in the United States through six months to one year of additional studies at an Iranian university outside the capital such as Ferdowsi University in Mashad, which has an excellent Farsi program. This longer commitment to more rigorous language training might not be possible for all language officers but it should be demanded of political officers.

In retrospect it is clear that we reinforced our tendency to remain ignorant of many aspects of conditions in Iran through a natural inclination to take the easy way out. We had no choice but to deal with the absolute ruler of Iran who, in any case, was giving us whatever we wanted. So why look further? Anyway, in today's world, any policy that works for 25 years is a good policy.

The shame of it is, we need not have come down at the crunch with no alternative but that of backing a loser. We could have maintained wider contacts with minimum damage to our relations with the Shah. When we finally informed him of our decisions to initiate contacts with the opposition, he merely grumbled suspiciously.

A less hesitant reporting policy would not have enabled us to save the Shah. What happened to him would have happened sooner or later, if not to this Shah then to his son, and by the time we became aware that the revolution was coming, it would have been too late to stop it. But provided our government were willing to act on the basis of information which contradicted established policy, wider contacts and accurate reporting, even at some cost in the intimacy of the USG-GOI relationship, might have given us the capacity to anticipate much of what was coming and to minimize the damage to our position in Iran. Today, insofar as the present government and the Iranian people are concerned, that position is in shambles and will only be partially revived with great difficulty.

We made similar mistakes in post-war China, in Vietnam and we will continue to do so whenever we confuse the interests of a client government with our own. Someday we simply must learn that the purpose of political reporting is to provide information and informed analysis to assist in the making of policy decisions, not to support existing policy. After all, the policy might be wrong.

Classified by Galen Fox
Subject to General Declassification Schedule
of Executive Order 12065. Automatically
declassified on June 1, 1985.

Hold for MG Gast

25 April 1979

From: RADM F. C. COLLINS, Jr., USN, 430-32-0914/1110
Chief Navy Section, ARMISH-MAAG, Iran

To: Chief of Information, Navy Department, Washington, D.C. 20350

Subj: Speech Material Clearance; request for

Encl: (1) Framework for speech on Revolution in Iran

1. From May 1978 to February 1979 I served as Chief Advisor to the Commander-in-Chief, Imperial Iranian Navy while assigned as Chief of Navy Section, ARMISH-MAAG, Iran. Needless to say it was an exciting adventure, one which offered fantastic opportunities as Iran made its leap from a WWII Navy to the latter 20th Century technology of the 993 KOROUSH Class Cruiser, and an unbelievable box seat to a violent revolution where a 50-year dynasty of autocratic rule was crumbled.

2. Anticipating that there will be those who are interested in hearing a first person account of the action, I have composed an outline of facts I have titled "Anatomy of Revolt" which I intend to be the basis for any remarks I make. The outline is factual and the only deviation from facts to opinion is found in the last two pages in which I show my opinion of why it happened. They will be clearly labeled as such. My supporting visual aids consist of Vu-graphs and 35 mm slides of various front page shots; Kayhan and Tehran Journal -- Tehran's two English language newspapers during the period.

3. I would appreciate your clearance to use this in future speaking commitments on the subject of the revolt in Iran. I will be departing the Washington area for a short stint of TAD and leave on the West Coast, so between 28 April and 7 May I can be reached through Commander Surface Forces Pacific in San Diego. After that I will be reporting to OP-40 for duty.

4. Thanks.

F. C. COLLINS, Jr.

Copy to:
Chief, ARMISH-MAAG, Iran
CINC, EURCOM

ANATOMY OF REVOLT

PROLOGUE

• END OF 2507 YEAR OLD PERSIAN EMPIRE 11 FEBRUARY CAUGHT EVERYONE INCLUDING AYATOLLAH RUHOLLAH KHOMEINI AND PRIME MINISTER BAKHTIAR BY SURPRISE. WHAT HAPPENED? HOW DID IT HAPPEN? THIS IS MY VIEW.

THE BEGINNING

JANUARY 1963 - "WHITE REVOLUTION" OR "SHAH AND PEOPLE'S REVOLUTION" WHEN SHAH TOOK ROYAL AND CHURCH LANDHOLDINGS AND REDISTRIBUTED TO PEASANTS. SPECULATION AT TIME THAT CLERGY OWNED 60% OF LAND IN IRAN. TO GAIN INSIGHT INTO INFLUENCE OF CLERGY, CONSIDER THAT CURRENTLY THERE ARE SOME 80,000 MOSQUES; 180,000 MULLAHS; AND OVER 1200 AYATOLLAHS IN A COUNTRY OF ABOUT 35 MILLION PEOPLE. ONE DISSIDENT WHO TOOK VOCAL AND VIOLENT ISSUE WITH THE SHAH ON LAND REDISTRIBUTION WAS RUHOLLAH KHOMEINI WHO TAUGHT IN HOLY CITY OF QOM ABOUT 90 MILES SOUTH OF TEHRAN. FOR HIS OPPOSITION HE WAS EXILED AND LIVED IN IRAQI HOLY CITY OF NAJAF UNTIL 6 OCTOBER 1978 WHEN HE MOVED TO PARIS. THE MOVE WAS PROMPTED BY IRAQI OFFICIALS WHO WERE INTERESTED IN PRESERVING THE RECENTLY MENDED RELATIONS WITH NEIGHBORING IRAN.

• THE REVOLUTION'S EXTERNAL MANIFESTATION IN IRAN COULD BE DATED 8 JANUARY 1978 WITH STUDENT RIOTS IN QOM AND ESFAHAN. MARTIAL LAW WAS DECLARED IN ESFAHAN AND OTHER OUTLYING CITIES FROM TIME TO TIME.

• RELATIVE CALM IN TEHRAN THROUGH JULY 1978, THO THERE WERE DEMONSTRATIONS AND DESTRUCTION OF PROPERTY (MAINLY BANKS, LIQUOR STORES AND CARS.) SHAH AND FAMILY SPENT MOST OF SUMMER ON CASPIAN. RUMOR THAT SHAH HAD BEEN SHOT BY AN ARMY J.O. (LT. KHATAMI, SON OF DECEASED GEN KHATAMI) WAS

Enclosure (1)

DENIED, AND SHAH AND SHAHBANOU'S PICTURES AND PRONOUNCEMENTS DAILY APPEARED IN PAPERS.

- EARLY AUGUST 1978 BOMBING OF KHANSOLAR RESTAURANT IN TEHRAN, FOLLOWED BY RIOTS IN ESFAHAN ON 11 AUGUST AND THE TRAGIC REX THEATRE FIRE IN ABADAN 17 AUGUST WHICH CLAIMED 377 LIVES BEGAN THE ACTIVE - CONTINUOUS PERIOD OF REVOLT.

- AYATOLLAH SHARIAT MADARI, THE SENIOR HOLY MAN IN COUNTRY, BEGAN SPEAKING OUT ACTIVELY ON NEED FOR REFORM, AND HE WAS JOINED BY AYATOLLAH TALEGHANI WHO WAS IN THE VANGUARD OF POLITICAL PRISONERS RELEASED BY THE SHAH. GOVERNMENT ALSO TRIED TO NEGOTIATE WITH KHOMEINI IN IRAQ AT THIS TIME, BUT NO SUCCESS.

- 27 AUGUST 1978. DRAMATIC INDICATION OF TROUBLE WAS PRIME MINISTER JAMISHID AMOUZEGOR'S RESIGNATION AFTER JUST OVER YEAR IN OFFICE.

- 28 AUGUST 1978. JAFAR SHARIF EMAMI, WHO HAD BEEN PM 1960-61 WAS APPOINTED AS PM. FELT TO BE MODERATE WHO COULD COMMUNICATE WITH CLERGY, NATIONAL FRONT, ETC.; UNFORTUNATELY EMAMI NOT DYNAMIC OR DECISIVE ENOUGH AND DEMONSTRATIONS AND DESTRUCTION CONTINUED.

- 8 SEPTEMBER AT 0600. MARTIAL LAW DECLARED IN TEHRAN (CURFEW 9PM - 5AM) AND 9 OTHER MAJOR IRANIAN CITIES — SIGNIFICANTLY ENOUGH, NEITHER OF THE NAVY CONTROLLED CITIES WERE INCLUDED. GENERAL OVEISI, CINC IIGF WAS MARTIAL LAW ADMINISTRATOR OF TEHRAN. AT MID MORNING 8 SEPT, A LARGE MOB ASSEMBLED IN JALLEH SQUARE TO SEE IF GOVERNMENT WAS SERIOUS ABOUT MARTIAL LAW. PUSHED TO LIMIT, TROOPS FIRED ON MOB KILLING AN ESTIMATED 300 AND WOUNDING PERHAPS A 1000 MORE- (GOVERNMENT FIGURES SAID 70 KILLED, 280 WOUNDED).

• 17 SEPTEMBER 1978. EARTHQUAKE IN NE IRANIAN CITY OF TABAS KILLED AN ESTIMATED 25,000 TO ADD TO SHAHANSHAH'S WOES.

• 6 OCTOBER 1978. KHOMEINI LEAVES NAJAF, IRAQ FOR PARIS; BEGINS FULL SCALE PROPAGANDA CAMPAIGN AGAINST PAHLAVI "DYNASTY" AND GOVERNMENT.

• EARLY OCTOBER SAW BEGINNING OF STRIKES -- POSTAL, HOSPITAL WORKERS, ETC. ON 11 OCTOBER, 4 DAY STRIKE OF NEWSPAPERS WHO PROTESTED CENSORSHIP.

• 26 OCTOBER - SHAH'S BIRTHDAY. A SUBDUED AFFAIR; RECEPTION AT GHOLESTAN PALACE IN DOWNTOWN IRAN WITH BUSINESS, ACADEMIC, CLERGY AND SENIOR MILITARY INVITED TO PAY RESPECTS TO HIM. HIM LOOKED GOOD, PEOPLE WERE IMPRESSED, SHAH RODE TO AND FROM RECEPTION IN MOTORCADE WITH NO UNUSUAL SECURITY.

• LATE OCTOBER SAVAK, STATE POLICE/INTELLIGENCE CAME UNDER FIRE, GENERAL NASSIRI, FORMER LEADER, CHARGED WITH MURDER.

• 1 NOVEMBER OIL STRIKE BEGAN.

• 4 NOVEMBER KARINS SANJABI, NATIONAL FRONT LEADER WAS INVITED TO COME BACK FROM PARIS WHERE HE WAS CONFERRING WITH KHOMEINI TO FORM GOVERNMENT; KHOMEINI SQUASHED THIS OPPORTUNITY FOR PEACEFUL SETTLEMENT.

• 5 NOVEMBER $ TRANSFER OUT OF COUNTRY RESTRICTED.

• 5 NOVEMBER ATTACK ON BANKS, CINEMAS, LIQUOR STORES REACHED PROPORTIONS OF ANARCHY. 300 BANKS DESTROYED, 11 STORY BMI BLDG RAZED, 7 STORY BANK MELLI HDQTRS GUTTED, COUNTLESS THEATRES AND LIQUOR STORES BURNED.

• SHARIF EMAMI GOVT RESIGNS.

• 6 NOVEMBER SHAH APPOINTED GENERAL GHOLAM REZA AZAHARI, CHIEF OF SCS, AS PM. CALLS FOR ORDER AND CALM, ADMITTED CORRUPTION AND ERROR IN GOVT. SPEECH WELL RECEIVED EXCEPT BY THOSE WHO TOOK EXCEPTION TO HIS ADMITTING PERSONAL ERROR; CONSTITUTION SAYS SHAH CAN DO NO WRONG - ONLY GOVERNMENT.

° SERVICE CHIEFS APPOINTED TO MINISTRIES; RABI-HOUSING, OVESI-LABOR, HABIBOLLAHI-EDUCATION/TECHNOLOGY/CULTURE/HIGHER EDUCATION, QARABAHI-INTERIOR ETC., RESIGNED WEEK LATER DUE CONSTITUTION RESTRICTIONS AGAINST HAVING TWO KEY GOVT POSITIONS.

° MOHARRAM (1-10 DECEMBER DEEP MOURNING PERIOD FOR IMMAM HOSSEIN, 3RD IMMAM, SON OF ALI, MOHAMMED'S SUCCESSOR), MARKED BEGINNING OF WIDESPREAD PROTEST - CURFEW VIOLATION THE NORM - ROOF TOP CHANTING OF "ALLAH AKBAR" BECAME NORM AS DID CONTEMPT FOR MARTIAL LAW.

° 7 - 8 DECEMBER EVACUATION OF DEPENDENTS BEGAN, TO LESSEN DANGER FROM EXPECTED RIOTS ON 9 - 10 DECEMBER.

° TASHUA (9 DECEMBER) PARADE PERMITTED BY AZAHARI. 3/4 MILLION TO MILLION PARADED TO SHAHYAD PEACEFULLY.

° ASHURA (10 DECEMBER) REPEAT OF TASHUA. CROWDS ABOUT SAME, "MOHAM NEISS"

DECEMBER NIGHTLY BLACKOUTS, BENZENE, NAFT, GAS-OIL SHORTAGE. BENZENE LINES 48 HOURS LONG - NAFT MINIMUM 8-10 HOURS. GAS OIL SHORTAGE PRODUCED COLD HOUSES AND SHOWERS!

30 DECEMBER GEN AZAHARI HAS SLIGHT HEART ATTACK AND ASKED FOR RELIEF AS PM.

3 JAN 79 SADIGHI ASKED TO FORM GOVT - COULD NOT GET CABINET. GENERAL OVEISI, CINC IIGF AND MARTIAL LAW ADMINISTRATOR FOR TEHRAN LEFT COUNTRY FOR USA. BAD OMEN. S. BAKHTIAR GIVEN CHANCE TO FORM GOVERNMENT. AGREES TO TRY UNDER THREE CONDITIONS: SHAH LEAVE COUNTRY; HE BE GIVEN FREE REIN; HE CONTROL MILITARY. SHAH AGREES.

7 JAN 79 BAKHTIAR PRESENTS CABINET - ALL ANTI SHAH. MUST NOW BE APPROVED BY MAJLIS AND SENATE. CURFEW EASED TO 11-5. COUP TALK.

15 JAN 79 APPROVAL OF BAKHTIAR CABINET GAINED.

THE DOWN TURN

16 JAN 79 SHAH LEAVES IRAN FOR REST. LEAVES REGENCY COUNCIL IN CHARGE. TEHRANI PRESIDENT OF COUNCIL. MUCH ELATION. SPENT DAY IN BANDAR ABBAS.

17 JAN 79 SPENT DAY IN BUSHEHR. SPIRITS DOWN BUT NOT OUT.

21 JAN 79 COMMUNIST CONDUCT BIG PARADE IN DOWN TOWN TEHRAN. MET SOME OPPOSITION.

23 JAN 79 KHOMEINI THREATENS TO COME TO TEHRAN; MEHARABAD CLOSED FOR 5 DAYS.

25 JAN 79 CONSTITUTIONISTS CONDUCT SUCCESSFUL PARADE FOR BAKHTIAR TO BARHESTARAN SQUARE IN FRONT OF MAJLIS. 3 - 500,000.

27 JAN 79 BAKHTIAR OFFERS TO MEET KHOMEINI IN PARIS; KOMEINI SAYS, "COME WITH RESIGNATION IN HAND."

1 FEB 79 KHOMEINI RETURNS TO IRAN AFTER 15 YEARS ABSENCE - 750,000 TO 1 MILLION PEOPLE TURN OUT TO GREET "AGHA UMAD" (THE MASTER HAS COME)

6 FEB 79 KHOMEINI NAMES 70 YR OLD MEHEJI BAZARGAN AS PM OF REVOLUTIONARY GOVERNMENT. BAKHTIAR RESPONDS THAT REVOLUTIONARY GOVT IS "JOKE".

8 FEB 79 7 OF BAKHTIAR'S MINISTERS SWING TO BAZARGAN. QARABAGHI TO CADETS AT OFFICERS SCHOOL SAYS "ARMY'S JOB NOT POLITICS, BUT DEFENDING COUNTRY."

9 FEB 79 SERMON TITLE "WHEN NOTHING MAKES SENSE" AT TEHRAN COMMUNITY CHURCH. HOMOFAR DISTURBANCE AT DOSHAN TAPPEH. IMPERIAL GUARD CALLED OUT TO QUELL.

10 FEB 79 WORD OUT THAT ARMY FIGHTING AIR FORCE. SHOOTING AND BURNING TO SOUTH OF IIN HDQTRS. CURFEW LOWERED TO 1630. AF SECTION RESCUED FROM DOSHEN TAPPEH BY HELO; NAVY SECTION DRIVES HOME; ARMISH MAAG STAFF ELECTS TO STAY AT SCS HDQTRS. POLICE STATIONS METHODICALLY KNOCKED OVER.

79

END OF A DYNASTY

11 FEB 79 ALL HANDS TOLD TO STAY HOME. SPORADIC SHOOTING. 1100 QARABAGHI NEUTRALIZES ARMY "POLITICS FOR POLITICIANS." IMPERIAL GUARD RETURNS TO GARRISON. CROWDS GO WILD. RUMOR THAT WATER SYSTEM POISONED. GENS BADARIE, JAFARIAN AND BELARGI ALL KILLED TODAY.

12 FEB 79 IMPERIAL GUARD ARMORYS KNOCKED OVER. THOUSANDS OF WEAPONS AND MILLIONS OF ROUNDS OF SMALL ARMS AMMO NOW IN HANDS OF REVOLUTIONARIES. RADIO ANNOUNCES AMERICANS ARE JOINING IMPERIAL GUARDS IN COUNTER REVOLT. IMPERIAL GUARD JOINS REVOLUTIONARY FORCES OR DESERTS. MUCH SHOOTING. 0430 GAST AND COMPANY RESCUED BY IBRAHIM YAZDI AND TAKEN TO EMBASSY.

13 FEB 79 ADMIRAL HABIBOLLAHI ON RADIO ASKS NAVY TO RETURN TO WORK.

14 FEB 79 1120 RECEIVE CALL FROM GAST, EMBASSY UNDER ATTACK. I CALL ADM HABIBOLLAHI AND ASK FOR HELP - ALSO KHOMEINI POLICE STATION. 1145 GAST CALLS BACK, "EMBASSY OVERRUN, WE'VE SURRENDERED." YAZDI AND KHOMEINI FORCES ARRIVE AND TALK GUERILLAS INTO SURRENDERING PRISONERS WHO ARE TAKEN TO KHOMEINI HEADQUARTERS FOR QUESTIONING. GUERILLAS CLAIM TO BE MARXIST; FEDEYEN. CLAIM TO BE LOOKING FOR SAVAK MEMBERS AND RECORDS AT U.S. EMBASSY. ALL EMBASSY/MILPERS RETURNED TO EMBASSY IN LATE AFTERNOON. BOB PRYOR COMES BY AND I INVITE HIM TO STAY. DESCRIBES DESECRATION OF CHURCH 11 FE

15 FEB 1979 ARMED MEN COME TO MY GATE. GARDNER TELLS THEM NO ONE OF IMPORTANCE LIVES HERE.

16 FEB 1979 ACCOMPANY BOB PRYOR TO SERVICES HE IS HOLDING AT SAADI ROOM OF HILTON. KHOMEINI MILITIA GUARD ENTRANCE. 1230 WHILE FIXING LUNCH, ABDOL ANNOUNCES "COMMITTEE" HAS COME TO CALL AND WOULD LIKE MY PRESENCE. 8 OF 25 COME INTO COMPOUND. QUERY ME AS TO WHY I AM STILL HERE, ADVISE ME TO GO. NOT SAFE. THEY CANNOT GUARANTEE PROTECTION, ETC., COURTEOUSLY TREATED.

17 FEB 79 IRANIAN NAVY BACK TO WORK. COMMITTEE SCREENS FLAG OFFICERS; CAPT SULTAN IS SENIOR NAVY REP - MULLAH IS IN CHARGE. POURZAND BROTHERS DO NOT FARE WELL. KAYHAN HAS FIRST PICTURES OF "ISLAMIC JUSTICE". REVOLUTIONARY COURTS CONDEMNED AND HAD SHOT GENS NASSIRI (SAVAK), NAJI (ESFAHAN MARTIAL LAW ADMIN), RAHIMI (TEHRAN MARTIAL LAW ADMIN) AND KHROWSHODAD (OIC ARMY AVIATION). GORY PICTURE. ALSO PICTURES OF FOUR OTHER GENERAL OFFICERS WITH HANDS TIED BEHIND BACKS. ALSO WILL LIKELY SUFFER SAME FATE. PLO LEADER ARAFAT IN TOWN.

18 FEB 79 GIVE CLOTHES TO SERVANTS, PACK BAG. MOVE TO HILTON. BOMB SCARE WHEN WE ARRIVE.

19 FEB 79 SEARCHED THOROUGHLY AT MEHRABAD AND PASSPORT CHECKED 7 TIMES. 1502 WHEELS UP FOR FREEDOM.

"KEYS TO DOWNFALL OF PHALAVI DYNASTY"

"KHOMEINI'S HATRED OF SHAHANSHAH"

"CORRUPTION IN GOVERNMENT"

"FAILURE OF SHAH TO 'MIND THE STORE'"

"AUTHORITARIAN RULE OF SHAHANSHAH"

"LACK OF VALID/TIMELY INTELLIGENCE BY USG/GOI AGENCIES"

"SHAH'S WITHDRAWAL FROM PUBLIC LIFE IN SEPTEMBER"

"FRENCH SUPPORT OF KHOMEINI"

"FARSI LANGUAGE NEWS FROM BBC"

"FAILURE TO ENFORCE MARTIAL LAW"

"FAILURE TO DEAL WITH KHOMEINI OR OPPOSITION"

"FAILURE TO DEAL EFFECTIVELY WITH STRIKES"

"LACK OF 'GUSTY' MILITARY"

"OVER ESTIMATION OF ABSORPTIVE CAPABILITIES OF IRAN'S PERSONNEL RESOURCES"

"HUMAN RIGHTS POLICY"

"LACK OF UNDERSTANDING OF MIDEASTERN CULTURE BY WESTERNERS"

KEY UNANSWERED QUESTIONS

"WHY DID SHAH WITHDRAW FROM ACTIVE LEADERSHIP?"

"WHY DID GENERAL QARABAGHI NEUTRALIZE ARMY?"

"WHY DIDN'T GOVERNMENT EITHER TRY TO SELL ITSELF TO PEOPLE, OR DISCREDIT AYATOLLAH KHOMEINI?"

"WHY DIDN'T MILITARY MOVE TO TAKE OVER STRIKE-BOUND INDUSTRIES OR SERVICES SUCH AS REFINERIES AND CUSTOMS?"

NNNNVV 2558Z13BHA566
OO RUQMBR
DE RUTHD #6924 1190037
ZNY CCCCC ZZH
O 2723427 APR 79
FM SECSTATE WASHDC
TO AMEMBASSY TEHRAN IMMEDIATE 1993

C O N F I D E N T I A L STATE 106784

E.O. 12065 GDS, 4/27/85 (PRECHT, HENRY)

TAGS: PINT, IN

SUBJECT: CALL BY IRANIAN CHARGE

1. (C - ENTIRE TEXT)

2. CHARGE FAGHIH CALLED AT HIS REQUEST ON NEA/IRN ON APRIL 27. FAGHIH'S PRINCIPAL BUSINESS WAS TWOFOLD: (A) TO INDICATE PGOI SUPPORT FOR NASR AFSHAR'S PROPOSED FREEDOM OF INFORMATION REQUEST. FAGHIH SAID ROUHANI AND OTHERS HAD ASKED HIM TO MAKE CLEAR THAT PGOI SUPPORTED RELEASE OF PAHLAVI DOCUMENTS; (B) TO REITERATE MESSAGE IN A RECENT NOTE THAT IRAN WOULD CONSIDER IT AN UNFRIENDLY ACT IF THE USG WERE TO ISSUE VISAS TO THE PAHLAVI FAMILY. IN RESPONSE TO QUERY COUNSELLOR FAGHIH SAID HE SHOULD BE CAREFUL NOT TO BLOW OVER THE LINE INTO INTERNAL USG AFFAIRS. NASR AFSHAR'S CASE WAS PENDING BEFORE THE COURTS AND HIS FOI REQUEST WOULD BE ADDRESSED ON ITS MERITS IN ACCORD WITH US LAW AND REGULATIONS. SIMILARLY, VISA ISSUANCE WAS A MATTER OF US LAW AND REGULATIONS. WE WERE WELL AWARE OF THE STRONG FEELINGS OF THE IRANIAN GOVERNMENT AND IRANIAN PEOPLE TOWARDS THE SHAH. CLEARLY, PRESS REPORTING HAD MADE THE DIFFICULT ISSUE THIS HAD POSED FOR THE USG. IRAN SHOULD BE AWARE THAT THE US HAD A TRADITIONAL POLICY OF ACCEPTING FOREIGNERS IN NEED NO MATTER WHAT THEIR BACKGROUND HAD BEEN. WE HOPED THAT OUR RELATIONS WITH IRAN WOULD GRADUALLY BE STRENGTHENED SO THAT THEY COULD REST ON A FIRMER BASIS THAN QUESTION OF VISA ISSUANCE. AT THE MOMENT, QUESTION OF THE PAHLAVI FAMILY'S COMING TO THE US DID NOT ARISE AS THEY APPEARED TO BE HEADED FOR OTHER DESTINATION. DEPTOFF SAID THAT VISAS HAD BEEN ISSUED TO THE PAHLAVIS SOME MONTHS AGO IN TEHRAN.

3. IN CONNECTION WITH EXAMINATION OF US-IRANIAN RELATIONS, DEPTOFF REITERATED POINTS MADE BY THE

V

File POL
DCM
POL US-Iran
CONS
CHRON
RF

[illegible]TANTLY THAT WE WISH TO DEVELOP CLOSE, PRODUCTIVE [illegible]RELATIONS BUT DID NOT WISH TO POSH IRAN TOO FAST. WE [illegible]WOULD GRATEFULLY WELCOME ANY SUGGESTIONS GOI MIGHT [illegible]HAVE FOR ACTIONS BY THE US WHICH WOULD ASSIST THE [illegible]IRANIAN GOVERNMENT IN STRENGTHENING ITS ECONOMY AND [illegible]POLITICAL STABILITY. WE PARTICULARLY WANTED TO PUT [illegible]ON THE TABLE ANY SUSPICIONS OR DOUBTS THAT IRAN MIGHT [illegible]HAVE ABOUT US ACTIONS IN IRAN.

4. [illegible]STOFF CONTINUED THAT WE HAD BEEN DISTURBED BY [illegible]RECENT STATEMENTS BY KHOMEINI THAT US WAS SOMEHOW WORKING [illegible]AGAINST STABILITY IN IRAN. THIS WAS MOST CERTAINLY NOT [illegible]THE CASE FOR WE STRONGLY SUPPORTED INCREASED STRENGTH FOR [illegible]THE BAZARGAN GOVERNMENT. WE HOPED THAT THOSE PERSONS [illegible]WHO WERE ADVISING THE AYATOLLAH WOULD SPEAK TO HIM [illegible]FRANKLY AND HONESTLY ABOUT THE US POSITION SINCE THE [illegible]REVOLUTION. IF THEY HAD DOUBTS OR SUSPICIONS TO CONVEY [illegible]TO THE AYATOLLAH, WE HOPED THEY WOULD FIRST CONVEY THEM [illegible]TO US.

5. [illegible]STOFF CONTINUED THAT ONE OF THE MOST DIFFICULT [illegible]PROBLEMS IMPEDING A RETURN TO NORMAL CONDITIONS WAS THE [illegible]SECURITY SITUATION ON OUR COMPOUND. UNTIL WE HAD [illegible]IMPROVED PROTECTION WE WOULD NOT BE IN A POSITION TO [illegible]ISSUE VISAS ON A NORMAL BASIS AS WE WOULD LIKE TO DO.

6. WITH REFERENCE TO VISAS, [illegible]STOFF NOTED THAT CERTAIN [illegible]IRANIAN CONSULATES WERE DEVIATING FROM STANDARD PRACTICE [illegible]IN THE ISSUANCE OF VISAS, E.G., SOME VISAS WERE VALID [illegible]FOR ONE ENTRY AND A PERIOD OF TEN DAYS. SOME CONSULAR [illegible]OFFICIALS WERE REQUIRING A LETTER OF INTRODUCTION FROM [illegible]THE PGOI. AS THE CHARGE KNEW, OUR LAW REQUIRED [illegible]RECIPROCITY ON VISA ISSUANCE. WE DID NOT WISH TO MAKE [illegible]THIS A FORMAL MATTER, BUT WOULD BE OBLIGED TO DO SO IF [illegible]THE SITUATION WERE NOT CORRECTED. YAZDI SAID HE WOULD [illegible]PERSONALLY LOOK INTO THE QUESTION AND SUGGESTED THAT [illegible]SPECIFIC INSTANCES WERE DEVIATING FROM NORMAL PRACTICE.

7. [illegible]WILL BE IN TOUCH WITH DR. YAZDI TO CORRECT THIS [illegible]SITUATION. WE ASKED FOR A REPORT ON HIS FINDINGS BEFORE [illegible]ASKING EMBASSY TEHRAN TO TAKE THIS MATTER UP OFFICIALLY [illegible]WITH THE PGOI.

8. [illegible]FINALLY, [illegible]STOFF RAISED THE CASE OF REZA AMINI, [illegible]STATING PERSONALLY THAT IT DID NOT SEEM CREDIBLE THAT [illegible]REZA AMINI WAS ENGAGED IN PLOTTING AGAINST THE [illegible]IRANIAN GOVERNMENT. NO CHARGES HAD BEEN ANNOUNCED AND THE [illegible]NET EFFECT OF AMINI'S CONTINUED INCARCERATION WAS [illegible]DAMAGE TO OUR EFFORTS TO STRENGTHEN US-IRANIAN

[illegible] ACTIONS. AAGRIL MADE NOTE AND INDICATED HE WOULD BE
[illegible] LUNCH WITH TEHRAN. VANCE

[illegible]

CONFIDENTIAL TEHRAN 4625/01

O 040213Z MAY 79
FM AMEMBASSY TEHRAN
TO SECSTATE WASHDC IMMEDIATE 1242
BT
C O N F I D E N T I A L TEHRAN 04625

CHRGE: STATE 5/3/79
APPRV: SHB:CWNAAS
DRFTD: E/C:CDTAYLOR
CLEAR: 1. NONE
DISTR: ECON-2 DCM POL CRU RF ICA MAAG

E.O. 12065 GDS 5/3/85 (TAYLOR, CLYDE D.) OR-E
TAGS: EAGR, ECON, ETRD, PFOR, IR
SUBJ: CHARGE'S CALL ON AGRICULTURE MINISTER DR. MOHAMMAD IZADI

REF: STATE 110124

1. (C - ENTIRE TEXT)

2. SUMMARY: THE CHARGE, IN HIS MAY 2 CALL ON AGRICULTURE MINISTER IZADI, CONVEYED THE SAME POLITICAL MESSAGE DELIVERED IN HIS PREVIOUS CALLS AND IZADI RESPONDED WITH A POLITE IF SOMEWHAT-COOL EXPRESSION OF DESIRE TO OVERCOME THE DEFICIENCIES OF US FOREIGN POLICY AND BUILD BILATERAL AGRICULTURAL RELATIONSHIPS ON OUR HISTORIC EDUCATIONAL, TECHNICAL AND COMMODITY TIES. LITTLE NEW OR SPECIFIC WAS LEARNED CONCERNING AGRICULTURAL POLICIES BUT THE MINISTER DID INVITE US AGRICULTURAL EQUIPMENT MANUFACTURERS TO SUBMIT PROPOSALS FOR LONG-TERM PRODUCTION ARRANGEMENTS IN IRAN. END SUMMARY

3. THE CHARGE, ACCOMPANIED BY THE ACTING ECONOMIC COUNSELOR, CALLED MAY 2 ON DR. MOHAMMAD IZADI, MINISTER FOR AGRICULTURE AND RURAL DEVELOPMENT (MARD). MR. MAGHSOOB-POUR OF THE INTERNATIONAL RELATIONS OFFICE SAT IN. THE CHARGE DESCRIBED THE USG'S BASIC POLICY OBJECTIVES VIS-A-VIS IRAN--IRAN'S TERRITORIAL INTEGRITY AND ECONOMIC STRENGTH AND US NON-INTERFERENCE--AND EXPRESSED HOPE THAT ON THE BASIS OF MUTUAL RESPECT, HISTORIC TIES AND MUTUALLY BENEFICIAL TRADE WE COULD COOPERARATE IN THIS NEW ENVIRONMENT. THE CHARGE RECOUNTED VARIOUS BILATERAL TECHNICAL PROGRAMS, PARTICULARLY THOSE INVOLVING OUR DEPARTMENT OF AGRICULTURE AND, WHILE ACKNOWLEDGING THE PREMATURITY OF SUCH CONSIDERATIONS, INVITED THE MINISTER TO KEEP IN MIND THE PUBLIC AND PRIVATE ASSETS WITHIN THE US WHEN HE DEVELOPS HIS AGRICULTURAL PROGRAMS.

4. DR. IZADI, IN RESPONSE, REFERRED TO THE INCORRECT ECONOMIC STRATEGY OF THE PREVIOUS REGIME WHICH EMPHASIZED "SHOW-OFF PROJECTS" AND PURSUED UNREALISTIC INDUSTRIAL GOALS. IRAN, HE SAID, SHOULD RETURN TO ITS TRADITIONAL AGRICULTURAL EMPHASIS, THOUGH WITH USE OF ALL APPROPRIATE TECHNIQUES. "WE WANT HELP FROM ANY FRIEND." AS CONCERNS FOREIGN RELATIONS IN AGRICULTURE, HE SAID THAT THE US IS IRAN'S NUMBER ONE LOGICAL SOURCE FOR KNOWLEDGE AND TECHNICAL ASSISTANCE OWING TO THE US CLIMATE AND THE PRIMACY OF US EDUCATIONAL INSTITUTIONS IN TRAINING IRANIANS. WHETHER OR NOT THIS RELATIONSHIP CONTINUES DEPENDS, HE SAID, ON US POLICY--WHETHER THE US ENCOURAGES TIES.

5. TURING TO THE POLITICAL, DR. IZADI EXPOUNDED ON THE DIFFERENCE BETWEEN AMERICANS (KIND, HELPFUL, ETC.) AND US

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POLICY. THE LATTER, HE SAID, IS BASED ON US AGENTS REPORTS AND THE US MEDIA, WHICH WITH THE EXCEPTION OF PBS IS CONTROLLED BY THE SAME MONOPLY WHICH CONTROLS US MOVIES, ETC. IF THE US FEELS UNLOVED, IT IS BECAUSE FOREIGNERS ARE REACTING TO THE DISTORTED VIEW OF THEM CREATED BY OUR MEDIA. HE EMPHASIZED HIS BELIEF THAT IF WE WISH, AS THE CHARGE EXPRESSED, TO IMPROVE RELATIONS THEN THE USG MUST IMPROVE THE US MEDIA. THE PGOI, HE SAID, IS "OPEN" AND WANTS TO DEAL HONESTLY. SINCE WE ARE ALL "CHILDREN OF ADAM AND EVE" WE SHOULD BE ABLE TO COOPERATE ON THE BASIS OF KNOWING EACH OTHER AND MUTUAL RESPECT. THE 30 MINUTES CALL ENDED WITH DR. IZADI RETURNING TO HIS CRITICISM OF THE US PRESS, ADDING THAT HE CONCLUDED DURING HIS MANY YEARS AS A STUDENT IN THE US THAT THE US MEDIA WAS MANIPULATED BY "A MONOPOLY." THE USG, HE SAID, NEEDS A LAW TO SOLVE THIS PROBLEM; HE ADDED, ALMOST AS AN AFTER-THOUGHT, THAT HE, OF COURSE, FAVORS FREEDOM OF THE PRESS.

6. THE CHARGE, GIVEN THE MINISTER'S ARTICULATE AND SINCERE ESPOUSAL OF HIS ANTI-MEDIA CONVICTIONS, CONFINED HIS RESPONSE TO A BRIEF RECOUNTING OF THE SHAH'S SIMILAR FOCUS ON THE EVILS OF THE US PRESS AND THE OBSERVATION THAT A MEDIA HATED BY SUCH DISPARATE PEOPLES CAN'T BE ALL THAT BAD.

7. THE CHARGE, IN AN ATTEMPT TO GET THE DISCUSSION BACK ON THE FARM, SOLICIATED THE MINISTER'S VIEWS CONCERNING THE DIRECTION OF AGRICULTURAL POLICY AND PROGRAMS. AGAIN ALLOWING FOR THE NEWNESS OF THE GOVERNMENT, HE ASKED FOR ANY INDICATION OF HOW THE GOVERNMENT PLANNED TO MOVE ON RURAL DEVELOPMENT (ROADS, ELECTRIFICATION), STRUCTURAL POLICIES FOR AGRICULTURE (COOPERATIVES, CORPORATIONS, AGROINDUSTRY) AND COMMODITY PRICE POLICY. DR. IZADI SAID LITTLE HAD BEEN DECIDED, PARTICULARLY CONCERNING THE SITUATION OF THE AGRICULTURAL STRUCTURE. ADMITTING TO SOME DISPUTE ON THIS, HE SAID HE PERSONALLY FAVORS PRIVATE ENTERPRISE, WITH GOVERNMENT INVOLVEMENT ONLY TO THE EXTENT NEEDED TO STIMULATE RIGHT DIRECTIONS AND PROVIDE WHAT

THE PRIVATE SECTOR CANNOT, E.G. DAMS FOR IRRIGATION. FEEDER ROADS WILL BE A PRIORITY. THE OFFICIAL PRICE FOR WHEAT HAS BEEN INCREASED AND PRICES FOR BARLEY, SUGAR BEET AND RICE ARE UNDER REVIEW. WHEN EMBOFF DESCRIBED THE SUCCESSES OF THE US NATIONAL RURAL ELECTRIC COOPERATIVE IN OTHER COUNTRIES AND ITS DESIRE TO ASSIT IRAN, DR. IZADI SAID RURAL ELECTRIFICATION PROGRAMS WERE IMPORTANT, BUT WOULD FOLLOW THE PROVISION OF ADEQUATE DISTRIBUTION AND WAREHOUSING OF ALREADY EXISTING AGRICULTRUAL PRODUCTION. (DETAILED INFORMATION SOUGHT PER REFTEL, RECEIVED AFTER OUR CALL, IS NONETHELESS MORE APPROPRIATE TO THE EFFORTS OF THE FAS ATTACHE, AN OFFICE ABANDONED OF FAS' STAFF OR CONTACT SINCE MID-FEBRUARY.)

8. MINISTER IZADI INVITED US MANUFACTURERS OF AGRICULTURAL EQUIPMENT TO SUBMIT INFORMATION AND PROPOSALS TO THE MARD IF INTERESTED IN A LONG-TERM PRODUCTION POSITION IN IRAN. HE SAID THAT IN KEEPING WITH IRAN'S NEW AGRICULTURAL EMPHASIS IT WOULD SELECT THREE (3) COMPANIES TO PRODUCE AND SELL HERE. THEIR ABILITY TO PROVIDE SERVICE AND SPARE PARTS WOULD BE TAKEN INTO ACCOUNT. INTERESTED COMPANIES SHOULD PROVIDE CATALOGS OF THEIR PRODUCTS WITH PRICES. EMBOFF ASKED WHAT THIS POLICY INDICATED FOR THE FUTURE OF FOREIGN FIRMS ALREADY HERE (SUCH AS ROMANIAN TRACTORS WITH MASSEY FERGUSON AT TABRIZ AND JOHN DEERE AND INTERNATIONAL HARVESTER AT ARAK) AND THE MINISTER SAID THAT THOSE FACILITIES COULD BE CHANGED. (NOTE: OUR COMMERCIAL STAFF AND FAS FSNS WILL COORDINATE EFFORTS TO FLESH OUT THIS INVITATION AND REPORT ACCORDINGLY.)

9. DURING THE 25 MINUTES WE WERE KEPT WAITING FOR THE APPOINTMENT WE EXPLAINED TO MARD OFFICIAL MAGHSOOB-POUR THE OUTSTANDING $21,700 DEBT TO OUR DEPARTMENT OF AGRICULTURE FOR ADVANCES TO IRANIAN FORESTRY TRAINEES. HE OFFERED HIS ASSISTANCE IN RESOLVING THE ISSUE AND OUR FAS FSNS WILL CONTACT HIM. MAGHSOOB-POUR, A 25 YEAR VETERAN WITH THE MARD, SAID THAT THE MINISTRY WAS BEGINNING TO RESUME WORK. ITS HIERARCHY IS REDUCED FROM NINE TO FOUR UNDERSECRETARIES, ONE OF WHICH IS A CARRYOVER.

10. BIOGRAPHIC: DR. MOHAMMAD IZADI, REPORTEDLY 53, IS LEAN, ALMOST BALD AND WITH BEARD. HIS ENGLISH IS ALMOST FLAWLESS, HIS SPEECH CAREFUL, ARTICULATE, AND CONSISTENT WITH A CONFIDENT BEARING. HE ATTENDED THE UNIVERSITY OF PENNSYLVANIA AND OBTAINED HIS PHD (BELIEVE IN AGRICULTURAL SCIENCES) FROM THE UNIVERSITY OF OREGON. HE WAS MOST RECENTLY A PROFESSOR OF AGRICULTURAL SCIENCES AT THE PAHLAVI UNIVERSITY AT SHIRAZ. HE IS ALSO A FARMER AND SAID HE GROWS CHIEFLY TOMATOES AND CABBAGE WITH SOME RICE. HIS MANNER TOWARDS HIS VISITORS WAS COOL AND BARELY CORRECT. WITHOUT READING TOO MUCH INTO THIS ONE CALL, THERE WAS LITTLE WARMTH IN HIS RECEPTION (WHICH AFTER A LATE ADMISSION HE READILY, AND WITHOUT APOLOGY, INTERRUPTED WITH A LONG TELEPHONE CALL). HE APPEARED PRIMED TO DELIVER, AS WE WERE TO TAKE, HIS LICKS ON US FOREIGN POLICY. HIS SINCERE AND BY ALL APPEARANCES IMMUTABLE VIEWS CONCERNING THE US PRESS, NOT SURPRISING EVEN AMONG SUCH HIGHLY AND US EDUCATED IRANIANS, IS MARRIED WITH A BLINDNESS CONCERN-

ING THE FABRICATIONS AND DISTORTIONS BEING FED THE IRANIAN PUBLIC BY KHOMEINI AND HIS "TRUTH SQUAD." IZADI SHOULD BE AS WELL QUALIFIED FOR HIS PORTFOLIO AS ANY MINISTER IN THE BAZAGEN CABINET AND HIS PRIVATE ENTERPRISE LEANINGS BODE WELL FOR A PRAGMATIC APPROACH TO A SECTOR CURRENTLY DEVOID OF INVESTORS CONFIDENCE. THIS, OUR FIRST START AT DIALOGUE WITH HIM, SHOULD IDEALLY BE FOLLOWED BY SECOND LEVEL CONTACT IF STAFF RESOURCES PERMIT. IZADI'S CLEAR RECOGNITION OF IRAN'S NATURAL INCLINATION TO THE US IN AGRICULTURAL MATTERS NEEDS CAREFUL TILLING, ESPECIALLY BY OUR PRIVATE SECTOR,TO OVERCOME HIS SUSPICION, IF NOT HOSTILITY, TO USG POSTURES. NAAS
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CONFIDENTIAL TEHRAN 4625/02

بسمه تعالی

وزیر امور خارجه

تاریخ : ۱۳۵۸/۲/۳۰

جناب آقای وزیر امور خارجه

دریافت نامه مورخ سیزدهم مه ۱۹۷۹ آن جناب موجب خوشوقتی گردید.

از تبریکات و آرزوهائی که بمناسبت انتخاب اینجانب بسمت وزیر امور خارجه دولت موقت جمهوری اسلامی ایران ابراز فرموده اید سپاسگزارم و مایلم متقابلا" به شما اطمینان بدهم که جمهوری اسلامی ایران نیز در مسائل و مصالح مشترک دو کشور آماده همکاری میباشد.

از خبری که در مورد انتصاب آقای کاتلر بسمت سفیر ایالات متحده امریکا در تهران بمن داده اید متشکرم و امیدوارم بمحض مساعد شدن فضای روابط دیپلوماتیک دو کشور ایشان بتوانند به ایران آمده وظائف خود را شروع کنند.

من از عقیده شما مبنی بر لزوم تبادل نظر کامل و صادقانه، خواه بطور مستقیم و خواه وسیله نمایندگان دو کشور، استقبال میکنم و در چهارچوب این فکر مایلم مطلب زیر را با شما در میان بگذارم و توجه خاصتان را نسبت به آن جلب نمایم.

جناب آقای وزیر امور خارجه،

شما در نامه خود تان نوشته اید که دولت متبوعتان قصد ندارد بهیچ گونه در امور داخلی ایران مداخله نماید. من از این تصریح متشکرم. اما ناگزیرم بگویم که بنظر دولت موقت جمهوری اسلامی ایران قطعنامه مورخ ۱۷ مه ۱۹۷۹ سنای کشور شما در مورد مجازات جنایتکاران رژیم سابق بهیچوجه از اصل فوق پیروی نمیکند و از مصادیق بارز مداخله در امور داخلی کشور ما میباشد و ناگزیر دولت ایران نسبت به این رویه و

قطعنامه سنای آمریکا شدیدا " اعتراض مینماید .

برای ملت ایران مایه تعجب است که چگونه سنای آمریکا ، هنگامی که رژیم گذشته جوانان ما را بی پروا بخاک وخون میغلتاند ساکت میماند و احساس نمیکرد که حقوق بشر در ایران نقض شده است . اما اکنون که انقلاب پیروزشده وجنایتکاران بدون درنظرگرفتن وابستگی های مذهبی آنان ، به سزای اعمالشان میرسند فریاد نقض حقوق بشر را درکشور ایران بلند کرده واز کسانی که برای بیش از نیم قرن شرم آورترین جنایات را مرتکب شده اند پشتیبانی نماید .

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یقین دارم که جنابعالی بخوبی وقوف دارید که یکی از هدفهای اصلی ومستمر انقلاب مردم ایران پایان دادن به هرگونه دخالت بیگانگان در امور داخلی کشورشان است . درچنین شرائطی باید با نگرانی اظهار کنم که اقدام سنای کشور شما نه تنها به ایجاد تفاهم مشترک ومبنائی برای همکاری ثمربخش که شما در نامه خودتان بدان اشاره کرده اید کمک نمیکند بلکه دولت ایران را مجبور میسازد که زیر فشار شدید افکار عمومی ملت در روابط خود با دولت آمریکا درجهت محدودنمودن آن تجدیدنظر نماید .

بشما اطمینان میدهم که دولت متبوع من نیز مایل است با ایالات متحده آمریکا روابط نزدیک دوستی وهمکاری را براساس حفظ استقلال مملکت ومنافع ملی واحترام متقابل برقرار نماید ولی این روابط همانطوریکه جنابعالی نیز متذکر شده اید باید بر مبنای جدیدی پایه گذاری شود . این مبناء بنظر دولت من ، توجه واحترام به

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وزیر امور خارجه

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احساسات وخواسته های مردم ایران وقبول واقعیات ملهم از انقلاب قهرمانانه آنان میباشد.

بشما اطمینان میدهم که چنانچه روابط جدید دوکشور ما برا س مبانی فوق بنا شود زمینه برای همکاریهائی که جنابعالی درنامه خودتان بدان اشاره فرموده اید مساعد خواهد شد.

متقابلا" آرزومندم درآینده فرصتی پیش آید که شما را ملاقات کنم.

با احترامهر ابراهیم یزدی

جناب آقای سایروس ونس

وزیر امورخارجه ایالات متحده امریکا

In the Name of the Almighty

OFFICE OF THE MINISTER OF FOREIGN AFFAIRS

May 20, 1979

Honorable Mr. Secretary of State:

Your Excellency's letter dated May 13, 1979, was received with pleasure.

I appreciate the congratulations and good wishes that you have expressed on the occasion of my appointment as Minister of Foreign Affairs of the Provisional Government of the Islamic Republic of Iran, and wish to assure Your Excellency mutually that the Islamic Republic of Iran is also ready to co-operate in the joint issues and matters of common interest to the two countries.

Thank you for informing me of the appointment of Mr. Cutler as the Ambassador of the United States of America to Iran, and I hope that as soon as the atmosphere of diplomatic relations between the two countries becomes favorable he can proceed to Iran and commence his duties.

I welcome your views on the necessity of full and frank exchange of views, whether directly or through representatives of the two countries, and in pursuit of that idea may I set forth the following point and invite your special attention to it:

Mr. Secretary of State,

You state in your letter that your government has no intention to intervene in any way in Iran's internal affairs. I appreciate this explicitness. However, I have to state that in the view of the provisional government of the Islamic Republic of Iran the resolution dated May 17, 1979 of your country's Senate concerning the penalization of the former regime's criminals does not at all comply with the above principle, but is a clear instance of intervention in our country's internal affairs and, thereby compelled, the Iranian Government strongly protests against that line of action and resolution of the United States Senate.

It is a source of surprise for the Iranian people who wonder how it was that when the past regime was ruthlessly felling down our young people the United States Senate remained silent and did not seem to feel that human rights were being violated in Iran, whereas now that the revolution triumphed and the criminals - regardless of their religious affiliations - are meted the penalty of their deeds, it has raised the cry of human rights violation in Iran and supports those who have committed the most shameful crimes for more than half a century.

I am confident that Your Excellency is quite familiar with the fact that one of the principal and continuous objectives of the Iranian people's revolution is to bring to end any sort of intervention by foreigners in

the internal affairs of their country. Under these conditions I must state with concern that not only does the action taken by your country's Senate not help to create mutual understanding and a basis for fruitful co-operation as cited in your letter, but it compells the Iranian government, under strong pressure from the nation's public opinion, to make revisions in its ties with the United States government in the direction of limiting them.

I assure Your Excellency that my government is also desirous of establishing close ties of friendship and co-operation with the United States of America on the basis of preserving the country's independence and national interests and based on mutual respect. But these relations, as also pointed out by Your Excellency, must be based on a new foundation. In the view of my government this foundation is consideration and respect for the feelings and aspirations of the Iranian people and acceptance of the realities derived from their heroic revolution.

I assure you that in the event the new relations between our two countries are founded on the above bases, they will constitute a favorable ground for the kinds of co-operation mentioned in Your Excellency's letter.

I mutually wish for an opportunity to meet you in the future.

With regards,

/s/ Ebrahim Yazdi

H. Exc. Cyrus Vance
The Secretary of State of the United States of America

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C O N F I D E N T I A L STATE 131898

E.O. 12065 GDS, 5/23/85 (PRECHT, HENRY)

TAGS: ASEC, IR

SUBJECT: SCHEDULED ANTI-AMERICAN DEMONSTRATIONS

REF: TEHRAN 05378

1. (C - ENTIRE TEXT)

2. WE COMMEND EMBASSY FOR ITS PREPARATIONS TO IMPROVE EMBASSY SECURITY AND ITS PLANS TO DISPERSE EMBASSY PERSONNEL TO EXTENT POSSIBLE ON DAY OF SCHEDULED DEMONSTRATIONS. WE ARE NOT SATISFIED, HOWEVER, WITH PGOI'S RESPONSE TO DATE TO YOUR REQUEST FOR ADDITIONAL SECURITY. THEREFORE WOULD YOU PLEASE SEE PM BAZARGAN OR FONMIN YAZDI ON URGENT BASIS TO MAKE FOLLOWING POINTS:

A. AS IRANIAN GOVERNMENT WILL HAVE NOTICED, THIS ADMINISTRATION HAS BEEN MAKING A MAXIMUM EFFORT TO IMPROVE RELATIONS, RESTORE OUR TIES TO A NORMAL COURSE, AND LIMIT TO EXTENT POSSIBLE EMOTIONAL OR MISINFORMED RESPONSES. WE HAVE NO ABILITY TO CONTROL STATEMENTS FROM THE AMERICAN PRESS OR U.S. CONGRESS.

B. WE HAVE DONE OUR BEST, HOWEVER, TO PRESENT A FACTUAL PICTURE OF EVENTS IN IRAN AND TO DESCRIBE TO ALL INTERESTED AMERICAN PARTIES THE MUTUAL INTERESTS AND CONCERNS WE SHARE WITH IRAN.

C. WE ARE DISTURBED BY THE PHENOMENON OF INCREASING ANTI-AMERICANISM IN IRAN, MUCH OF WHICH SEEMS TO BE BASED ON A POPULAR MISUNDERSTANDING OF THE ATTITUDE OF THIS ADMINISTRATION. WE REALIZE THAT THE PGOI FACES MANY CONSTRAINTS AND WE APPRE-
CIATE THE EFFORTS TO DATE TO DEFUSE THE HIGHLY-CHARGED ATMOSPHERE.

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D. WE ARE SERIOUSLY CONCERNED AT PROSPECTS THAT DEMONSTRATIONS MAY THREATEN THE SAFETY OF AMERICAN EMBASSY PERSONNEL IN TEHRAN. WE WOULD LIKE THE IRANIAN GOVERNMENT TO CONSIDER ADDITIONAL MEASURES TO PROVIDE PROTECTION IN THE EMOTIONALLY-CHARGED CIRCUMSTANCES. ACCORDINGLY, WE REQUEST URGENTLY THAT ADEQUATE NUMBERS OF EFFECTIVE AND DISCIPLINED SECURITY PERSONNEL BE PROVIDED TO PROTECT THE AMERICAN EMBASSY COMPOUND AND ITS PERSONNEL.

F. WE ALSO REQUEST THAT STEPS BE TAKEN TO PREVENT SCHEDULED DEMONSTRATIONS WHICH MAY BECOME VIOLENT FROM THREATENING THE PREMISES OF THE AMERICAN EMBASSY.

. WE WILL, MEANWHILE, MAKE SAME POINTS TO IRANIAN EMBASSY HERE ON AN URGENT BASIS. CHRISTOPHER
ET
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IRANIAN ECONOMIC TRENDS

A REPORT PREPARED BY THE AMERICAN EMBASSY IN TEHRAN

JUNE 1979

SUMMARY

By mid-1979 Iran's economy was still in the main paralyzed as a result of the revolutionary turmoil which ushered in the Islamic Republic last February. Despite deceiving elements of normalcy, such as basic infrastructural services, the level of productive economic activity is still less than half that of a year ago. Agriculture has been least affected and within the industrial sector, food and pharmaceutical industries are near normal operation. It is estimated, in the absence of any official economic data or estimates, that the real GNP declined some 20 percent in 1357, the year ending March 20. Economic recovery is seen as a medium term prospect and one determined more by political than economic factors. Iran's revolutionary leaders inherited an almost moribund economy, but also the fortunate factors of high foreign reserves, low public debt, the revenue oil base and long-term potentialities which justify moderately ambitious social and economic aspirations. The impact of the revolution on foreign commercial interests in Iran has been adverse and substantial. The status of most pre-revolutionary contracts is still uncertain and businessmen are advised to obtain the latest information before visiting Iran or navigating its still revolutionary waters.

CURRENT ECONOMIC SITUATION AND TRENDS

MARCO ECONOMIC SITUATION: Iran's post revolution economy remains in serious disrepair as of late June. This reflects in great part the continuing nature of the revolution, which saw the Monarchial Government overthrown February 11. Iran is governed by a Provisional Government and awaits the seemingly illusive process of adopting a new constitution and electing a permanent government. The impermanence of government and wide-spread negative expectations foster the continuing economic malaise. The Revolutionary Government and authorities inherited in February an economy, already suffering from disequilibria, shattered by pre-revolution strikes and concessions to workers. Industry, apart from the generally strike-exempt food and pharmaceutical sectors, was virtually moribund. The construction sector was shut down. Commerce was suffering from consumption slackness, customs embargoes, and an almost bankrupt bank system. The oil sector was barely meeting domestic requirements. Agriculture, alone, appeared little affected by the traumatic events. But, unlike most revolutionary benchmarks, Iran's new leaders inherited a good foreign exchange reserve, low public debt and the hard currency revenue earning power of the easily resumed oil sector.

Non economic factors have been pre-eminent since the change of gove
ment. Typical of most revolutions, priority is given to the "purifi
tion process," and economic consequences thereof are subordinated to
revolutionary goals. This "backward looking" phase of the revolutio
seems not yet complete. Contracts, financial movements and personal
wealth accumulation are all scrutinized and revolutionary justice m
out to those considered guilty. This process has not enhanced the
tors requisite to economic recovery -- the fabric of authority, eff
tive decision making, worker discipline and positive expectations.
the contrary, a majority of Iran's senior governmental and business
leadership has been removed -- imprisoned, executed, voluntarily exi
or just told to vacate-- and with the continuing substantial loss o
middle level managers, professionals and technicians through emigrat
Iran's economy is suffering from lack of adequate leadership and exp
tise, with the concurrent erosion of authority with all its consequ
ces. Officials, public and business, are reluctant to make decision
and their subordinates, likewise fearing the uncertain consequences
from action in this continuing revolution, impede the execution of
programs.

Many aspects of Iran's post-revolution economy are almost disconcer-
tingly normal. The infrastructural fabric of water, electricity,
telecommunications, post, petroleum supplies (and record traffic) i
essentially sound and supports ones expectations that all else shoul
likewise be normal. Offices are staffed and banks and most stores
open, but the functional level of the economy is still well below no
mal, a factor understandable in a revolution, but nonetheless often
hard to appreciate in the midst of "normal" trappings. In June, a
senior government official said that Iran's industries were working
at 40 percent of capacity; 40 percent of "normal" may have been what
he meant. He recognized as impediments to economic recovery the shor
tage of credit and uncertainties.

Few economic data are available since September 1978, the beginning
of revolutionary turmoil. The Central Bank's Annual Report, which
presents the year's economic data, will not be available before Sep-
tember, at least three months late. Our best, educated-guess estima
of economic performance in 1357, the year which ended March 20, 1979
is a GNP in current value of some $70 billion, down 8 percent, ver-
sus a 17 percent increase in 1356. At this level, per capita GNP
would be $1,988, off 10 percent. We estimate that in constant 1353
prices the GNP fell about 20 percent to $44 billion, which compares
with a 2.8 percent growth in 1356. The fall in GNP was a consequenc
of the political turmoil which led the country to near economic para
lysis. Oil production, erratic during the fall, fell to a bare sub-
sistence level December 26, with exports curtailed until March 5 and
valued at but $14.8 billion for the year. Value added in the group
of industrial sectors declined by at least 20 percent, with construc
tion the most depressed sector. Government expenditures contracted
to just about the payroll minimum by February.

Most observers do not anticipate full economic recovery for at least
several years, so drastic have been the shock waves of the revolutio

The oil sector, now more essential to the economy, is producing at an average 4 million B/D, almost 40 percent below the level a year ago. But if this level is sustained, production in 1358 will be roughly equal to last year's. In 1978, oil production at 1.9 Billion Bbls was down 8.3 percent. Revenue, however, will be at least 40 percent greater, running now at an annual rate around $24 billion. Industry, little recovered, and construction considered but 20 percent of normal, will depress the GNP. Agriculture will probably post a negative figure since, apart from even to favorable prospects for wheat (5.4 million MT), soya and dairy, meat, rice and other production prospects are down. Fiscal policy is reportedly to be expansionary, but by the time the yet embryoric 1358 budget is adopted, obligated and disbursed, little economic impact will be felt this year. Foreign non-oil trade will be but half previous levels, with imports not exceeding $9 Billion. Major projects are either cancelled or inoperative, awaiting reconfirmation and remobilization. Unemployment continues as the country's primary economic and political issue, and Government leaders have complained concerning the "Workers' Dictatorship." Inflationary factors have built up and are expected to be unleashed by economic recovery, an unfortunate price but hard to avoid. Private investment, down slightly in real terms in 1356, is absent and will unlikely occur in the private sector given prospects of increasing nationalization and other uncertainties. In summary, Iran's economic performance in the near-term will be conditioned principally by its political environment. Continued uncertainty will impede recovery; restoration of stability and achievement of a reasonable level of economic activity will require substantial government initiative. Fortunately, if oil production is maintained at or near a 4 MMB/D level, feasible even without foreign technicians in the short term, Iran will not face financial resource problems.

Economic policy is still in a state of flux. All that was past is suspect. Shia Islam apparently is sufficiently flexible in much of the economic area that, apart from an oft-declared tenent of private property rights and an equalitarian thrust, policy determination would seem more a product of Iran's third world position and perceived socio-economic needs. The eventual mix of private and public sectors in the economy may be quite different from the currently increasing public intervention in the economy, which is justified as necessary due to the chaotic post-revolution conditions. Numerous changes in policy have been noted, witness the nationalization of banks June 7 and insurance June 25. Nationalization authority is currently pending for the industrial and agricultural sectors. Minimum tax liability has been raised and the range of government salaries narrowed. Trade policy seems to favor autarky, the relaxation of price controls, reliance on market forces and greater attention to the priorities of the rural/agrarian sector. "Show-case" projects and sophisticated military systems are out.

Iran, as we have said previously, has better than average long-term prospects. With oil reserves of around 60 billion barrels, the world's second largest known gas reserves and a not insignificant

minerals sector, its foreign exchange earning potential is capable of supporting a moderately ambitious long-term development program. Easily overlooked in revolutionary rhetoric is the fact that from the overly ambitious, oil-boom spending spree, Iran emerged with a much improved infrastructure, higher level of literacy and manpower skills and per capita consumption capable of supporting a larger indigenous industry. Revolutions are seldom efficient, and Iran's has cost it dearly in human and physical terms. Its challenges include a population growth of some three percent, still-high adult illiteracy, a badly skewed income distribution and social factionalism. The country now must find or develop new political and even social fabrics and a self-identity that can be directed constructively to attain its individual, social welfare and economic aspirations.

FISCAL DEVELOPMENT: Iran's fiscal performance has been abnormal since late 1978. Disbursements for major capital projects generally ceased and arrearages from 1357 persist. Current expenditures have continued to be restrained, hardly exceeding payrolling. Foreign lending and investment have been negligible for over a year and will continue so. Tax collections ceased last fall and an amnesty on payments was granted until June 21. Debt financing through bonds and foreign credits ceased by October and neither are considered short-term revenue prospects. Expenditure restraint is credited with minimizing the government's 1357 deficit to below $3 billion. Government external debt is virtually current, but early resolution of payments owed foreign companies is problematic.

A temporary budget for the first quarter of 1358 has expired and a permanent budget is, at this writing, pending approval. The budget is reportedly rials 2240 Billion ($31.8 BN), with Rls. 800 BN ($11.3 BN) allocated for capital expenditures and the balance for current and miscellaneous activities. These levels are substantially below those authorized for 1357, but probably close to actual levels of spending in the last two years. Government compensation features have been trimmed to offset somewhat the substantial basic pay increases granted last fall. The chief announced tilts in the budget favor agriculture, rural development and housing. Decisions are still awaited on the continuation of most major projects, but the overall capital allotment appears adequate, especially in light of the lag between decision and disbursement. The chief issue will be the political capacity to allocate and disburse. The learning curve of the new leadership, lengthened by the weakened second level manpower support which has been depleted by emigration or revolutionary favor must be taken into account in expectations. Another issue will be the ability or will to clear up the sizeable arrearages from 1357. A projected $5 bn deficit is to be resolved by higher oil revenues and personal (not institutional) government bond purchases. Receipts from Iran's $7 billion external, non-monetary protfolio, should be around $1 billion.

The net of revenues from a major tax amnesty program and the results from a large increase in personal tax exempt income is hard to calculate, but non-oil revenues seem destined to be a smaller share of the resource pie.

MONETARY AND PRICE DEVELOPMENT: Iran's banking system was reasonably operational at this writing. The health of banks was uneven prior to the June 7 nationalization with about 15 banks highly liquid and about six deposit banks in substantial foreign arrearages. Banks reopened after the revolution on a regular basis but with erratic service; the foreign exchange market has been particularly chaotic, with Central Bank regulations changed almost completely May 5 and revised often since. Bank management, as elsewhere in the economy, was shattered, with about two-thirds changed. Revolutionary Committees often controlled even the most routine transactions. An amnesty on payment of commercial instruments was granted through June 21, at which time all except penalty fees and interest would be due. With bank nationalization, there came an almost complete change of management in the private and mixed capital banks. It is anticipated that with the government now liable for all claims on the banking system, the problem of weak banks as well as the reluctance of most banks to extend credit will be resolved. Continuing postponement of domestic and private debt repayment to banks is expected; most banks, on the other hand, are current on their domestic and foreign debt. U.S. banks, with direct outstandings in Iran of about $3 billion early 1979, are slowly reducing their exposure. As in the case of other foreign banks, they are booking little new debt. The issue of compensation of foreign as well as Iranian private bank shareholders has yet to be determined, but the Provisional Government has espoused the compensation principle.

Official monetary data are not available since October 1978, but liquidity (M2) is thought to have increased by five percent from September 21 to February 19, with notes in circulation up 103 percent and savings and term deposits down 20 percent. Thus, the decline in velocity of money offset almost entirely the large note issue activity which was required to sustain banks during the period of heavy withdrawals. Notes in circulation of March 20, were Rials 912 billion, compared with Rls. 450 billion September 22. The Central Bank has not yet reinstated the reserve requirements reduced last October and banks are not required to purchase government bonds. Liquid banks have been enrolled in the Government's program of credits for economic recovery, which were made available in May to industry, agriculture, housing and various state-owned companies. Interest rates or "fees" are six percent or less. The Central Bank is concentrating on bank recovery and has not yet adopted a monetary budget. It does seek, however, a negative note issue for 1358, which would be aided by Rial repatriation. Iran appears to face no short-term difficulties on its external accounts. Preliminary eleven month balance of payments data suggest a 1357 basic foreign exchange account balance in balance to slight surplus. Official foreign exchange in mid-June, after some three months with virtually

no oil receipts, were a little over $10 billion. Assuming payments in 1358 at $13 billion, off over 40 percent, and oil exports (crude and Product) averaging 3.4 MMB/D, Iran's current surplus could reach $10 billion, with end-year reserves of over $20 billion. Such a prospect may tempt Iran to repay high cost foreign debt, enjoy a cushion until the level of economic need is restored, reduce the earnings ' rate or escalate expenditures. There is debate concerning the exchange rate policy, with arguments pro and con on devaluation and revaluation. The Central Bank has a two tier rate, with officially sanctioned exchange needs sold at Rials 70.60 to the Dollar with other exchange purchases sanctioned at Rials 79.00. Non-oil export earnings benefit from the higher Rials 77.50 selling rate.

TRADE DEVELOPMENTS: Iran's trade fell substantially in 1978 and is expected to be off some 40 percent from that level in 1979. The most recent Iranian trade data are through December 1977. Preliminary data for the first seven months of 1357 (through October 22) reveal non-military imports of $4157 million, or an annual rate of $14 billion. We doubt, due to the customs and other strikes, that such imports exceeded $11-12 bn in 1357, with total merchandise payments around $14.5-15.0 billion, versus $18 billion in 1356. Non-oil/gas exports probably did not exceed $350 million in 1357. Receipts from oil exports should reach $21 billion in 1358 if production continues at the 4 million B/D rate. Non-oil/gas exports, dependent largely upon the presently crippled industrial and mining sector, should be off half. The 1358 import regulations reflect not only Islamic prohibitions but a more autarkic philosophy. For example, vehicle imports are prohibited.

Conditions at the ports after the revolution were chaotic due to the prolonged strikes. Despite subsequent preoccupations with political and management issues, operations slowly resumed and Iran-destined goods off-loaded in the Gulf during the strikes were delivered. Then ethnic/political problems in Khorramshahr resulted in the closing of that port in May. Fortunately, almost all of Iran's food imports, which in turn account for most current import activity, enter through other, calm ports. Imports in customs' holding areas, abandoned or benefitting from a warehouse-cost amnesty, are sizeable and becoming a problem. Lack of liquidy, again, is a major impediment to resolving this problem. Financial terms for trade are new. Most exporters to Iran desire a confirmed Letter of Credit and most Iranian banks have in turn asked for a 100 percent prior deposit. It is too early to see whether this obstacle will lessen due to bank's nationalization. Iranian exporters must agree in advance to sell foreign exchange proceeds to the banking system.

INFLATION ISSUE: It appears that Iran will have to pay the price of high inflation as a cost of economic recovery. Its rate of inflation was braked in 1978 due principally to a slowing of the economy and policies which affected real estate prices. The wholesale and consumer price indexes moved an average 9.4 and 9.7 percent in 1357, considerable declines from the double digit previous rates. Unfortunately, the coefficients of these indexes were virtually inapplicable during

the last half of 1357 due to the changed expenditure patterns caused by the economic paralysis and uncertainties. Thus, we consider more likely 1357 inflation rates of 15 and 11 percent CPI and WPI, with a GNP implicit deflator of 12. A recent examination of current price movements suggest an annual consumer price inflation rate of 15-17 percent. Real estate prices and rents have declined. Utilities are down slightly while transport and clothing costs are up somewhat. Food costs, apart from the generally subsidized staples, push the index up. Fruit, meats and vegetables suffer periodic shortages and prices in some items will run two to five times a year ago. Overall, food costs are up some 30 percent in the last six to nine months. Spare vehicle and machinery parts, plastics and industrial chemicals are in short supply. The Government's price policy is not yet determined. Food subsidies apparently will generally continue. The wage increases of last fall, shortages, pent-up demand due mainly to political factors, decreased productivity and the prospect of increased Government spending and consequent lessening of unemployment together support a prospect of high, over 30 percent, inflation in the near future. Essentially, a moderate price movement in the near-term would be a consequence of economic inactivity, low demand; higher inflation rates will be an unavoidable price of near-term economic recovery or stagflation will develop over the longer term.

LABOR CONDITIONS: Unemployment is perhaps Iran's greatest economic and political problem. It's magnitude is disguised by the present policy of voluntary or involuntary employment at previous levels regardless of need. Few reportedly are participating in the Government's Unemployment Loan Program, financed at Rials 10 billion a month. Nonetheless, many wonder when the cushions of personal savings and societal relief will run out for the several million unemployed and millions more underemployed. These are found particularly in the depressed construction and transport sectors, with slackness in industry and private services also contributing to the problem. The costs of compensation for little or no work will eventually have to be paid by the economy. A familiar situation is a factory with virtually the same complement of employees as a year ago, but producing 20-30 percent of normal and paying higher wages. In commerce, employers maintain staffs out of their pockets, awaiting an upturn in business. Government bureaucracy, like private, is still pre-occupied with political and organizational concerns. Ironically, Iran's new nascent labor movement, having successfully flexed its muscles during the politically motivated strikes last fall, faces a depressed economy and urgings from the revolutionary leadership to foresake material goods and sacrifice for the revolution. Indeed, even the off-frustrated formal Government recently established a special force to regulate labor and put down worker interference in operations. The Government's fiscal program is said to include employment creation in the rural areas which it hopes will induce migration from the urban centers.

THE ENVIRONMENT: Iran's political and economic environment is still revolutionary at this June writing. The populace awaits certain specific and other, nebulous developments essential to a perception of security and motivation to work and resume normal economic risks. Amnesty of political prisoners and others considered suspect is seen by many as a requisite to clear the atmosphere of fear and uncertainty. Likewise, adoption of a new constitution and election of a permanent government with general public acceptance is seen as necessary to reducing the political malaise and negative expectations. Establishment of an adequate and just security and judical system is also sought. The diffusion of authority among governmental and revolutionary fabrics persists. Westerners, as well as Western trained Iranians, often feel the effects of the revolution's judgement against western influence and presence. While physical danger has lessened, the atmosphere can be inhospitable.

IMPLICATIONS FOR THE UNITED STATES

The economic impact of Iran's prolonged paralysis and revolution on its foreign suppliers of goods and services has been significant and will be felt for some time. Foreign exports to Iran fell dramatically from late 1978 and orders in the pipeline are almost exclusively food, pharmaceuticals, paper products and spares. U.S. non-military exports, which increased in 1978 by $1 billion to $3.7 billion were but $245 million the first quarter of 1979, off 72 percent. U.S. export potential remains good in agricultural commodities and such shipments have resumed at normal levels. Investment prospects are, of course, uncertain and U.S. joint ventures in many cases are anxiously awaiting word on their future. Some, as is the case in the minimally affected food and drug industries, report a brighter situation.

Many Iranian Government contracts with foreign firms have been cancelled, few have been reconfirmed and a good number remain in suspense. One calculation of the value of cancelled civilian contracts with foreign firms is $38 billion. The value of cancelled military-related contracts with the United States is at least $15 billion, apart from many related services. To the extent that these sales are not redirected, the loss to the U.S. economy must include the multiplier effect and loss of U.S. employment. Among major civilian contracts declared or considered "dead" are the aromatics plant at Abadan, Kalingas LNG, the two French 900 MW nuclear power plants, the Tehran/Khorramshahr/Bandar Khomeini (Ex-Shahpour) railroad electrification and Tehran's Center City Development "Shahestan". Projects presently considered unlikely to be continued or, if so in a highly modified form or not with foreign contractors, include Tehran's International Airport, the Qom-Bandar Khomeini Highway and Tehran-Tabriz railroad electrification. In the undecided but unlikely column are the IGAT II gas pipeline, the two German 1200 MW nuclear power plants (over two-thirds completed), the Italian steel mill at Bandar Abbas, and Tehran's Metro subway. Projects to be continued include the Iran-Japan Petro Chemi-

cal complex, the Sarcheshmeh copper complex, gas recovery/reinjection in Khuzestan (though modified) and, also in modified form, the telecommunications projects. Businessmen are urged to contact the Departments of Commerce and State to obtain the most current information concerning specific projects as well as general economic conditions in Iran.

Most foreign firms having outstanding contracts or joint ventures in Iran have resumed contact with their Iranian colleagues since the revolution. Many believed that had they not returned -- and some did not interrupt their presence -- it would have indicated to the Iranian agency something between disinterest and culpability for past actions in Iran. The results of renewed contract have differed greatly, but on the whole the foreign businessmen see their visits justified even if all issues were not settled. In many instances the foreign businessman has found that the government was not yet able to obtain a decision on a given contact. Public agencies, in cases where renogotiation has occurred, appear in general to seek downward modifications in contracts, a decrease in unit labor costs, lower expatriate presence and a waiver by the foreign firm of demobilization/remobilization and other costs relating to the revolution. Thus, even when a contract receives a "Go-ahead", the foreign firm, in most cases reluctant to resume work until arrearages are cleared up, faces some difficult public policies. Iran's formerly large foreign population is reduced to a few thousand legally documented workers. The former U.S. population of at least 45,500 is down to several hundred, excluding permanent resident dual nationals. A new and highly restrictive foreign work permit policy seeks to maximize employment of Iranians, but will make difficult the resumption of old or execution of new contracts.

The Embassy continues to provide current guidance on travel to Iran either in response to direct queries or through Washington agencies. While many U.S. businessmen have continued their work or returned permanently or periodically without incident, there have been numerous instances in which businessmen have been detained, restrained from leaving Iran or subjected to varying forms of employee harassment. The Embassy's Security Advisory late June continues to recognize its inability to afford normal protection to American lives and property. Business travel for specific objectives, other than general commercial promotion, may be warranted, but visitors are urged to obtain a current assessment before initiating travel and to maintain contact with the Embassy while in Iran.

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E.O. 12065: OPS 6/20/85 (TAYLOR, CLYDE D.) OR-E
TAGS: EALR, EAIL, OPEC, EFIN, IR
SUBJECT: (U) IRAN'S FOREIGN ASSISTANCE, INVESTMENT, REVENUES AND DEBT SERVICE

DEPT PASS EXIMBANK
PARIS ALSO FOR OECD

1. (C) ENTIRE TEXT.

2. ACTING ECONCOUNS OBTAINED JUNE 12 FROM DR. REZA SALIMI, ACTING PRESIDENT OF THE ORGANIZATION FOR INVESTMENT AND ECONOMIC AND TECHNICAL ASSISTANCE OF IRAN (OIETA),(LOCATED IN AND SUBORDINATE TO THE MINISTRY OF ECONOMIC AFFAIRS AND FINANCE), SUMMARY INFORMATION CONCERNING THE STATUS AND POLICIES OF THE PGOI'S FOREIGN ASSISTANCE AND INVESTMENTS, REVENUES AND EXTERNAL DEBT SERVICE. A LISTING OF IRAN'S CUMULATIVE (GROSS) FOREIGN GRANTS, CREDITS AND INVESTMENT BY THE OIETA, ACTIONS CAREFULLY GUARDED BY THE PREVIOUS GOVERNMENT, WAS CARRIED IN THE TEHRAN PRESS MARCH 29, HAVING BEEN RELEASED BY SOME WORKERS OF THE OIETA. A SENIOR OIETA OFFICIAL MAINTAINS THAT IT CONTAINED SOME ERROR. WE HAVE BEEN PROMISED A CORRECTED DETAILING AND WILL SUBMIT IT WHEN AVAILABLE. IN THE MEANTIME, THE PUBLISHED LISTS' AGGREGATES WILL SERVE AS A GENERAL INDICATION OF THE MAGNITUDES INVOLVED: GRANTS - $126,050,159; CREDITS - $7,960,523,445 AND INVESTMENTS $354 MILLION.

3. FOREIGN ASSISTANCE: THE FOREIGN ASSISTANCE BUDGET FOR THE CURRENT 1338 YEAR, WHICH BEGAN MARCH 21, IS NOT YET FORMULATED, ACCORDING TO DR. SALIMI. THE ONLY DISBURSEMENT SINCE THE FEB 11 REVOLUTION HAS BEEN TO THE OPEC FUND. HE SAID HE HOPED COMMITMENTS COULD BE MET. HIS COMMENTS ON SPECIFIC COUNTRY PROGRAMS, THOUGH SKETCHY, FOLLOW:

AFGHANISTAN - NO DISBURSEMENTS SINCE IRAN'S REVOLUTION.

- COMMENT: GIVEN CURRENT BILATERAL FRICTION, WE DO NOT
- EXPECT MUCH IRANINA LARGESS.

EGYPT - - DESPITE THE EARLY MARCH PGOI ANNOUNCEMENT OF
- SUSPENSION OF FURTHER AID, SALIMI REFERRED TO PENDING
- PROGRAMS THROUGH THE JOINT INVESTMENT COMPANIES IN A
- WAY TO INDICATE THAT TEEY WERE ALIVE.

SENEGAL - THE PROGRAMS, TERMED "NEVER PROVEN VIABLE"
- ARE DEAD.

INDIA - DISBURSEMENTS AGAINST THE KUDREMUKH IRON PROJECT,
- WHICH HAVE BEEN VIRTUALLY COMPLETED, REMAIN SUSPENDED
- DUE TO PERFORMANCE DISPUTES.

OPEC FUND - DR. SALIMI SAID THAT IRAN RECENTLY REFUSED
- TO RESPOND TO A FINANCIAL CALL AND RAISED WITH THE
- FUND ITS CONTENTION THAT IRAN'S QUOTA DOES NOT
- PROPERLY REFLECT ITS OIL PRODUCTION RELATIVE TO OTHER
- MEMBERS. THE PARTICULAR REFERENCE WAS TO SAUDI ARABIA.
- SALIMI SAID TEAT IRAN'S COMMITMENT OF $420 MILLION
- (INCLUDED $120 MILLION FOR IFAD) COMPARES WITH $415
- MILLION BY SAUDI ARABIA, A MUCH LARGER OIL PRODUCER
- AND CONSIDERABLY BETTER OFF. HE SAID TEAT DISBURSE-
- MENT BY IRAN TO THE FUND THUS FAR EXCEED $200 MILLION.

4. FOREIGN INVESTMENT: DR. SALIMI SAID THAT THE REVOLUTIONARY GOVERNMENT'S POLICY OF FOREIGN INVESTMENT IS STILL UNDER STUDY, BUT IN THE MEANWHILE THERE ARE NO PLANS TO DISINVEST. HE ACKNOWLEDGED CONSIDERABLE CRITICISM CONCERNING THE PREVIOUS GOVERNMENT'S FOREIGN INVESTMENT. THE FACT THAT IN SUBSEQUENT DAYS THE PRESS PLAYED PROMINENTLY THE TRAVEL OF MINISTER OF INDUSTRY AND MINES TO ATTEND A BOARD MEETING TO KRUPP RATHER SUGGESTS AN UNDERSTANDABLE IRANIAN PRIDE IN SUCH FOREIGN INVESTMENTS.

5. REVENUES FROM THE OIETA PORTFOLIO: DR. ASERAFI, SALIMI'S PREDECESSOR, ESTIMATED TEAT INTEREST AND PRINCIPAL RECEIPTS BY IRAN FROM THIS PORTFOLIO OF FOREIGN ASSETS WOULD REACH $1.2 BILLION IN THE CURRENT IRANIAN YEAR. WHEN EMBOFF MENTIONED THIS ESTIMATE, WITHOUT ATTRIBUTION, TO SALIMI, HE SAID IT SOUNDED HIGH, BUT HE THEN ADMITTED THAT IN HIS NEWNESS TO THE POSITION HE REALLY HAD NOT ASSESSED THE ISSUE. TWO PRINCIPAL REPAYMENTS, $400 MILLION FROM THE LONDON WATER BOARD AND AN
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ACCELERATED REPAYMENT OF $300 MILLION FROM THE BANK OF FRANCE, ALONE WILL BRING IN $700 MILLION; INTEREST AND OTHER PRINCIPAL SHOULD PUSH THE REVENUES TO OR OVER ONE BILLION DOLLARS. DELINQUENCIES TO DATE IN IRAN'S FOREIGN ASSISTANCE PROGRAM ARE THOSE PREVIOUSLY REPORTED: EGYPT, SUDAN AND PAKISTAN. EGYPT'S DEBT WAS RESCHEDULED LONG AGO, WE HAVE NO DETAILS CONCERNING SUDAN AND PAKISTAN'S DELINQUENCY BUBLES ALONG WITHOUT ANY FORMAL RESCHEDULING. REVENUE DATA FROM THE INVESTMENT PORFOLIO CONTINUE TO BE UNAVAILABLE.

6. DEBT SERVICE BY IRAN: THE OIETA IS RESPONSIBLE FOR SERVICING OF IRAN'S PUBLIC DEBT (DIRECT AND, IF NEED BE, GUARANTEED) AS WELL FOR APPROVING ALL FOREIGN DEBT OF GOVERNMENT AGENCIES. IN THE AFTERMATH OF THE REVOLUTION, WHICH WAS PRECEDED BY CRIPPLING BANK AND PUBLIC SECTOR STRIKES, THE OIETA WAS UNDER GREAT PRESSURE TO EXPLAIN LATE PAYMENTS AND TO MAKE GOOD ON DEBT THE MEAF HAD GUARANTEED. IN SOME OF THE LATTER CASES, THE OIETA DEFERRED ON PAYMENT AS GUARANTOR UNTIL A REASONABLE EFFORT COULD BE MADE TO GET THE PRIMARY OBLIGOR TO PAY. DR. SALIMI SAID THAT THE PUBLIC SECTOR IS ALMOST CURRENT ON EXTERNAL DEBT SERVICE. EXCEPTIONS ARE: THE INDUSTRIAL CREDIT BANK, WHOSE DEBT IS NOT GUARANTEED BY THE MEAF, AND IRAN TRACTOR COMPANY, A SUBSIDIARY OF IDRO, BUT NOT GUARANTEED. DR. SALIMI COMPLAINED ABOUT THE LATE PAYMENT PENALTIES BY THE USG (EXIMBANK, ET AL) AND ASKED IF, IN CONSIDERATION OF THE DIFFICULTIES IRAN HAD BEEN THROUGH, WHICH WERE NOT FINANCIAL, THE USG COULD NOT FORGIVE THESE AMOUNTS. HE SAID THAT THE OIETA HAD PAID SEVERAL PENALTIES BEFORE THE MATTER WAS NOTICED AND THAT NOW THE MEAF IS DECLINING, CLAIMING FORCE MAJEURE. EMBOFF SAID HE UNDERSTOOD THE CONCERN, BUT OBSERVED THAT THE PEOI WAS TRYING TO HAVE IT BOTH WAYS. GOVERNMENT AGENCIES WERE REJECTING FORCE MAJEURE CLAIMS BY FOREIGN CONTRACTORS CONCERNING WORK NOT ACCOMPLISHED DURING THE REVOLUTION. EMBOFF ASKED THE MAGNITUDE OF THE PENALTIES AND IF THEY WERE MOSTLY FROM THE USG. HE ESTIMATED THAT THEY AGGREGATE TO OVER $1 MILLION AND THAT ALMOST ALL WAS FROM THE USG. EMBOFF EXPLAINED THAT THE USG HAS LITTLE LATITUDE IN THE MATTER OF DEBT COLLECTION, TO WHICH SALIMI SAID THAT IF THE USG PRESSES, HE WILL HAVE TO SEEK THE NECESSARY FUNDS FROM THE ECONOMIC COUNCIL. NAAS

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FOR CHARGE

E.O. 12065 GDS 6/23/85 (PRECHT, HENRY)

TAGS:PEPR, IR, US

SUBJECT: AMIR-ENTEZAM STATEMENT

1. (C) ENTIRE TEXT.

2. WHEN YOU SEE YAZDI OR AMIR-ENTEZAM, PLEASE CONVEY OUR APPRECIATION FOR THE LATTER'S HELPFUL TV STATEMENT ON U.S.-IRANIAN RELATIONS. WE HOPE THAT WE CAN CONTINUE TO COOL THE RHETORIC AND BEGIN TO MAKE SOME REAL PROGRESS ON THE THORNY PROBLEMS IN OUR RELATIONSHIP.

3. IF THE ASSIGNMENT OF AN AMBASSADOR IS RAISED PLEASE DISCOURAGE SPECULATION ON TIMING OF ANY ANNOUNCEMENT. AS YOU KNOW, THERE IS STILL STRONG FEELING HERE OVER IRANIAN-REJECTION OF AMBASSADOR CUTLER AND IT MAY BE SOME TIME BEFORE-SENATE WOULD BE RECEPTIVE TO ANOTHER NOMINATION.
CHRISTOPHER
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E.O. 18065 GDS 6/29/85 (PRECHT, HENRY)

TAGS: RINR, IR

SUBJECT: REPORTING SUBJECTS

REF: TEHRAN 6605

1. (SECRET - ENTIRE TEXT)

2. FOLLOWING IS TEXT OF REF B REQUESTED IN REFTEL. REF A CABLE POUCHED JUNE 28.

,AS YOU REQUESTED AND AS OPPORTUNITIES DEVELOP IN THE WEEKS AHEAD, HERE ARE SOME OF THE TOPICS ON WHICH WE COULD USE ADDITIONAL OR COUNTINUING INFORMATION:

1. POLITICAL RELATIONSHIPS WITHIN THE REVOLUTIONARY LEADERSHIP.

,A) WHO ARE POTENT FIGURES WITH AND WITHOUT OFFICIAL POSITIONS? WHOM SHOULD WE WATCH AS COMERS? NEED BIOS.

"B) WHAT ARE THE POLITICAL ALLIANCES AND STRENGTHS OF AMI ENTEZAM AND SABAGHIAN? WE KNOW RELATIVELY LITTLE OF EITHER.

C) WHERE DOES YAZDI STAND IN THE HIERARCHY AFTER HIS SHIFT TO MFA? DID HE GAIN OR LOSE POWER? HO; HAVE MFA PERSONNEL REACTED TO HIM AND ARE THERE ANY PREDICTABLE AFFECTS ON POLICY?

'2. WHAT IS THE PO'ULAR IMPRESSION OF BAZARGAN? . HOW IS HE REGARDED BY VARIOUS KEY GROUPS? DOES HE HAVE ANY RIVALS?

'3. WE DO NOT HAVE A VERY GOOD FIX ON TALEGHANI, HIS ENTOURACE AND LINKS TO OTHERS IN THE RELIGIOUS AND SECULAR ESTABLISHMENTS.

/4. WE NEED SOME FAIRLY SYSTEMATIC APPROACH TO THE DEPICTION OF TRENDS, INCLUDING A DESIGNATION OF SOECIFIC POLITICAL AND ECONOMIC AREAS TO WATCH AND PESIODID REPORTING. SEVERAL CATEGORIES WERE MENTIONED IN OUR EARLIER CABLE.

'5. HOW IS THE US PERCEIVED? WHAT ACTIONS OR INACTIONS SINCE MID-FEBRUARY HAVE HELPED OR HURT US? WHAT COULD WE DO BETTER?

.6. REPORTS OF MILITARY CONVERSATIONS ARE MOST HELPFUL. FROM TIME TO TIME IT WOULD BE USEFUL TO SUMMARIZE, DEPICTING TRENDS, FOR EACH OF THE SERVICES. POLICE AND GENDARMERIE INFO ALSO VALUABLE.

7. WE APPRECIATE EXTREMELY VALUABLE ECON REPORTING. E COULD USE (AS PART OF NO, 4 ABOVE) REGULAR COVERAGE OF MARKET BASKET PRICES AND SHORTAGES, EMPLOYMENT, GRIPES. HOW ARE THE UNEMPLOYED MAKING ENDS MEET?

8. WHAT ARE THE ACTIVITIES, STRENGTHS, PLANS OF LIBERAL DEMOCRATS (MATIN-DAFTARY), NATIONAL FRONT (SANJABI) LEFT GUERRILLAS (FADEYEEN), VARIOUS MUJAHEDIN GROUPS, PRO-SHAH ELEMENTS?

'9. HOW FARE THE PROVINCES, PANTICULARY HARVEST, FOOD AVAILABILITY?

'10.WHAT IS STATUS OF EFORTS TO CLOSE DOWN, SELL OFF OR SHIP OUT MILITARY FACILITARIES AND EQUIPMENT?

;11. WHAT CAN YOU GATHER OF PERCEPTIONS OF KEY EMBASSIES? WHAT ARE THE SOVIETS UP TO?

'12. WHAT IS THE SITUATION WITH THE UNIVERSITIES, NIRT, OTHER MEDIA?

13. STATUS OF PLANNING FOR THE CONSTITUTION AND ELECTIONS.

'14. WHAT HAVE PGOI/KHOMEINI DONE ON AMNESTY FOR MILITARY POLICE, OTHERS?

'15. AND, IN BETWEEN, DON'T FORGET TO PLAN THE FOURTH OF JULY PAOTY. CHRISTOPHER
BT
#8047

DE RUQMHR #6965/01 184 **
ZNY CCCCC
R 031426Z JUL 79
FM CARMISH/MAAG TEHRAN IRAN
TO RUEKJCS/SECDEF WASH DC
INFO RUEHC/SECSTATE WASHDC
RUEKJCS/JCS WASH DC
RUEADWD/CSA WASH DC
RUENAAA/CNO WASH DC
RUEAHQA/CSAF WASH DC
RUSNAAA/USCINCEUR VAIHINGEN GE
RUEKJCS/DIA WASH DC
RUEAHOF/CARMISH/MAAG ALEX VA
BT
C O N F I D E N T I A L TEHRAN IRAN 6965/1

CLASS: CONFIDENTIAL
CHRGE: A/M 7/3
APPRV: A/M:GAST
DRFTD: A/M
CLEAR: CHG; POL:VL
BAO:COL SCH
DISTR: MAAG POL2 E
RF CH

CONFIDENTIAL/NO FOREIGN DISSEMINATION

FOR: ASD: ISA/DSAA; NEA: IRN/PM-SAS; DJCS-J-4/5; DACS-IRN; OP-63; PAI-LETT; ECDC/ECJ-4/7, J-5-J-2

SUBJ: IRANIAN CONSTITUTION (U)

1. (U) THE TEHRAN TIMES, RECENTLY IN A SERIES OF REPORTS, PUBLISHED ITS TRANSLATION OF THE "DRAFT OF THE IRANIAN CONSTITUTION." THE REPORTS FURTHER STATED THAT THE MINISTER OF STATE, YADOLLAH SAHABI HAD CONFIRMED THIS TRANSLATION AS "SUBSTANTIALLY CORRECT." THE DRAFT CONTAINS 151 ARTICLES ENCOMPASSING ALL FACETS BY WHICH THE NEW ISLAMIC REPUBLIC WILL BE GOVERNED, IF APPROVED. THIS MESSAGE CONTAINS A SYNOPIS OF ARTICLES, WHICH DIRECTLY OR INDIRECTLY, WOULD AFFECT THE IRANIAN ARMED FORCES AND DEFENSE POLCIES.

--A. ARTICLE 6 - CENSORSHIP WILL ONLY BE IMPOSED IN TIME OF WAR.

--B. ARICLE 76 - THE PRESIDENT HAS TO BE OF IRANIAN ORIGIN AND HAS TO BE AN IRANIAN CITIZEN.

--C. ARTICLE 82 - "THE PRESIDENT'S OATH," INTER ALIA, REQUIRES THE PRESIDENT TO USE ALL HIS POWERS TO GUARD THE TERRITORIAL INTEGRITY OF THE COUNTRY.

--D. ARTICLE 93 - THE PRESIDENT IS THE SUPREME COMMANDER OF THE COUNTRY'S MILITARY FORCES. THE CHIEF OF STAFF OF THE ISLAMIC REPUBLIC'S ARMED FORCES WILL BE SELECTED AT THE SUGGESTION OF THE CABINET MINISTERS AND APPROVED BY THE PRESIDENT.

--E. ARTICLE 94 - ENDORSEMENT OF IRAN'S PACTS WITH OTHER COUNTRIES AND INTERNATIONAL TREATIES, IS THE RESPONSIBILITY OF THE PRESIDENT, FOLLOWING PARLIAMENTARY APPROVAL OF SUCH PACTS AND TREATIES.

--F. ARTICLE 95 - DECLARATION OF WAR, TRUCE AND THE MAKING OF PEACE IS A POWER OF THE PRESIDENT FOLLOWING APPROVAL BY THE PARLIAMENT. IN CASES OF EMERGENCY,

THE PRESIDENT CAN MAKE SUCH DECLARATIONS FOLLOWING CONSULTATION WITH THE MEMBERS OF THE CABINET.

--G. ARTICLE 103 - CONDUCTING THE AFFAIRS OF THE COUNTRY AND RESPONSIBILITY FOR ALL CIVIL AND MILITARY ORGANIZATIONS LAYS WITH THE COUNCIL OF MINISTERS.

--H. ARTICLE 121 - THE ARMED FORCES OF THE ISLAMIC REPUBLIC OF IRAN ARE RESPONSIBLE FOR THE COUNTRY'S INDEPENDENCE AND TERRITORIAL INTEGRITY.

--I. ARTICLE 122 - NO FOREIGN SOLDIER OR OFFICER IS ALLOWED TO SERVE IN THE IRANIAN ARMED FORCES. THE STAY OF FOREIGN ARMED FORCES IN THE COUNTRY OR THEIR PASSAGE THROUGH THE COUNTRY WILL ONLY BE ALLOWED WHEN IN THE INTEREST OF THE COUNTRY, AND WITH THE APPROVAL OF 3/4 OF THE WHOLE PARLIAMENT.

--J. ARTICLE 123 - THE ANNUAL MILITARY BUDGET WILL HAVE TO BE APPROVED BY THE PARLIAMENT. EXPENSES FOR BUYING WEAPONS AND THE REASONS FOR HAVING TO PURCHASE THEM WILL HAVE TO BE MADE CLEAR IN THE MILITARY BUDGET.

--K. ARTTICLE 123 - ESTABLISHMENT OF ANY KIND OF FOREIGN BASE IN IRAN, EVEN FOR PEACEFUL PURPOSES IS STRICTLY FORBIDDEN.

--L. ARTICLE 138 - MILITARY TRIBUNALS ARE TO BE SET UP TO CONSIDER VIOLATIONS OF SPECIFIC MILITARY DUTIES AND RESPONSIBILITIES. THE CONSIDERATION OF GENERAL OFFENSES ALLEGEDLY COMMITTED BY MILITARY POLICE PERSONNEL IS THE DUTY OF GENERAL COURTS OF JUSTICE.

--M. ARTTICLE 142 - TO PROTECT AND GUARD THE CONSTITUTION, AND TO INSURE THE CONFORMITY OF OTHER LAWS WITH IT, A COUNCIL TO PROTECT THE CONSTITUTION WILL BE SET UP WITH THE FOLLOWING COMPOSITION:

----1. FIVE RELIGIOUS LEADERS WHO ARE AWARE OF THE REQUIREMENTS OF CONTEMPORARY TIMES. THE PARLIAMENT WILL BT

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CHOOSE THESE FIVE PERSONS FROM A LIST OF WELL-KNOWN RELIGIOUS LEADERS.

----2. SIX EXPERTS IN JUDICIAL MATTERS; THREE OF WHOM WILL BE LAW PROFESSORS AT THE COUNTRY'S COLLEGES OF LAW, AND THE OTHER THREE JUDGES OF THE COUNTRY'S SUPREME COURT WHO WILL BE ELECTED BY PARLIAMENT.

2. (C/NF) COMMENT: IF THE ABOVE CONSTITUTION IS RATIFIED, THE PRESIDENT WILL HEAD THE IRANIAN MILITARY FORCES AS THE SUPREME COMMANDER (ARTICLE - 93). IT APPEARS THAT THE CHIEF OF STAFF WILL BE EQUIVALENT TO OUR CHAIRMAN OF THE JOINT CHIEFS OF STAFF. IF THE PRESIDENT IS ALSO HEAD OF THE ISLAMIC RELIGION (THE OFFICIAL FAITH, JAFFARI SHIAISM), AS WOULD BE IN THE CASE OF KHOMEINI BECOMING PRESIDENT, HE WOULD BE IN AN ESPECIALLY POWERFUL POSITION VIS-A-VIS THE MILITARY. THIS ALMOST TOTALITARIAN SITUATION COULD EMERGE BECAUSE IT CAN BE ASSUMED THAT THE LEADER (HEAD OR CHIEF AYATOLLAH) OF THE FIVE RELIGIOUS LEADERS ENTRUSTED TO GUARD THE CONSTITUTION (ARTICLE - 142) COULD WELL BE KHOMEINI. SHOULD A LAYMAN BE ELECTED PRESIDENT, THE RELIGIOUS LEADERSHIP WILL STILL BE A PROMINENT FACTOR IN DECISION MAKING. STRATEGICALLY, THE FORBIDDING OF ANY FOREIGN BASES ON IRANIAN SOIL EVEN FOR PEACEFUL PURPOSES (ARTICLE - 124), IF ENFORCED (AND WE ASSUME IT WOULD BE AS LONG AS KHOMEINI HAS POWER), WOULD PRECLUDE REESTABLISHMENT OF U.S. MILITARY PRE-REVOLUTIONARY OPERATIONS, OTHER THAN MAAG RELATED FUNCTIONS. IMPLEMENTATION OF THOSE ARTICLES NOT SUMMARIZED IN THIS MESSAGE, ARE NOT CONSIDERED TO IMPACT ON THE IRANIAN ARMED FORCES. IT IS REITERATED THAT THE CONSTITUTION IS ONLY IN DRAFT FORM, A POINT RECENTLY MADE ONCE AGAIN BY SAHABI TO EMB TEHRAN OFFICERS. NUMEROUS OBJECTIONS HAVE ALREADY SURFACED BY DIFFERENT FACTIONS OF THE POPULATION. GAST
BT
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DE RUQMHR #7648/01 203**
ZNY CCCCC ZZH
P 221251Z JUL 79
FM AMEMBASSY TEHRAN
TO SECSTATE WASHDC PRIORITY 2748
BT
C O N F I D E N T I A L SECTION 01 OF TEHRAN 07648

CLASS: CONFIDENTIAL
CHRGE: CHG:LBLAINGEN
APPRV: ECON:MJOHNSON
DRFTD: ECON:RBASH
CLEAR: ECON-3 CHG
POL RF CHRON

E.O. 12065: GDS 7/22/85 (JOHNSON, MARK) OR-E
TAGS: EINV, BEXP, BDIS, IR
SUBJECT: U.S.-IRAN COMMERCIAL RELATIONS

REF: STATE 180957

1. (C - ENTIRE TEXT)

2. VISITING DEPTOFF CALLED ON BANK MELLI PRESIDENT JALIL SHORAKA JULY 22 FOR DISCUSSION OF U.S.-IRANIAN COMMERCIAL RELATIONSHIPS, DRAWING ON POINTS CONTAINED REFTEL. WE PARTICULARLY WANTED TO SEEK HIS VIEWS CONCERNING POSSIBILITY OF REACTIVATING CHAMBER OF COMMERCE OR BUSINESS COUNCIL SINCE SHORAKA HAD BEEN IRANIAN CHAIRMAN OF THE ECONOMY AND FINANCE COMMITTEE UNDER THE U.S.-IRAN JOINT COMMISSION.

3. DEPTOFF OPENED CONVERSATION BY BREIFLY SKETCHING THE MOOD OF U.S. BUSINESS, BASED ON CONVERSATIONS WITH SOME 300 FIRMS SINCE THE REVOLUTION. BASIC MESSAGE WAS THAT THERE WAS STILL INTEREST IN MAINTAINING COMMERCIAL TIES WITH IRAN BUT ALSO SOME IGNORANCE OF AND CONSIDERABLE UNCERTAINTY OVER EVENTS IN IRAN. U.S. COMPANIES COULD ADAPT TO "BAD" SITUATIONS, BUT THEY HAD DIFFICULTY COPING WITH THE UNCERTAINTY. ALTHOUGH SOME FIRMS, LIKE GM AND DUPONT, HAD EXPERIENCED POSITIVE VISITS. OTHERS, LIKE GTE, WERE ENCOUNTERING SERIOUS DIFFICULTIES. (COMMENT: SHORAKA SHARES OUR PUZZLEMENT AS TO WHY GTE IS BEING SUBJECTED TO THIS TREATMENT. END COMMENT.) WE HOPED THAT THROUGH SOME INFORMAL CHANNEL WE COULD IMPROVE COMMUNICATIONS AND HELP MINIMIZE FURTHER COMMERCIAL DISPUTES.

4. SHORAKA SAID HE WAS "FRANKLY VERY WORRIED" ABOUT THE CURRENT SITUATION. THE REVOLUTION HAD CHANGED THINGS 180 DEGREES. THERE WAS VIRTUALLY NO ONE LEFT IN THE MINISTERIES WHO WAS FAMILIAR WITH THE PROBLEMS. NEARLY ONE LEFT, HE SAID. COMPANIES, TOO, HAD EXPERIENCED THIS RAPID TURNOVER IN SENIOR MANAGEMENT. SHORAKA OFFERED THIS AS A MAJOR REASON WHY THE ECONOMY WAS STILL IN A PERILOUS STATE AND WHY MANY FOREIGN FIRMS WERE EXPERIENCING DIFFICULTIES REESTABLISHING RELATIONSHIP.

5. SHORAKA THEN REVEALED THAT HE HAD RECENTLY MADE A TRIP TO NEW YORK AND LONDON AT THE BEHEST OF PRIME MINISTER BAZARGAN. PURPOSE WAS TO EXPLAIN BANK NATIONALIZATION AND ALLAY CONCERNS ON PART OF MAJOR FOREIGN BANKS. TWO WEEKS AGO HE HAD CONVENED MEETING OF BIGGEST AMERICAN BANKS IN NEW YORK AND OFFERED THEM FULL PGOI ASSURANCES CONCERNING RESPECT FOR THEIR ASSETS

AND OPERATIONS. SHORAKA STRESSED THAT IRANIANS HAD POSITIVE RECORD ON THIS SCORE, CITING CASES WHEN HE WAS IN MINISTRY OF FINANCE WHERE RIGHTS OF SHAREHOLDERS WERE FULLY PROTECTED.

6. WITH REGARD TO REJUVENATION OF BUSINESS COUNCIL, SHORAKA AGREED THAT IDEA HAD MERIT. PROBLEM WAS THAT IRANIAN SIDE WOULD HAVE TO BE RECONSTITUTED AND IN LIGHT OF THE LARGE-SCALE EXODUS OF SENIOR BUSINESSMEN, THIS WOULD TAKE TIME. SHORAKA FRANKLY FELT IT WOULD BE BETTER TO WAIT ON THIS PROPOSAL UNTIL AFTER A NEW GOVERNMENT EMERGES. DEPTOFF REPLIED THAT WE WOULD, OF COURSE, BE GUIDED BY IRANIAN VIEWS AS TO TIMING, BUT THAT IT SEEMED DESIRABLE TO HAVE SOME MECHANISM FOR INFORMAL CONSULTATION. SHORAKA FELT THAT DURING THIS TIME IT WOULD BE BETTER FOR U.S. COMPANIES TO PURUSE THEIR INTERESTS ON INDIVIDUAL BASIS, WITH REGARD TO JOINT COMMISSION. SHORAKA SAID THERE HAD BEEN NO TALK ON THIS SUBJECT WITHIN PGOI. HE FELT THE COMMISSION COULD BE USEFUL VEHICLE AND SUGGESTED WE RAISE SUBJECT IN CALLS ON MINISTER OF FINANCE AND OTHERS.

7. POSSIBILITY OF ARRANGING SMALL DELEGATION OF LEADING AMERICAN FIRMS TO VISIT TEHRAN WAS ALSO DISCUSSED. AGAIN, HE FELT IT WAS PREMATURE FOR THIS TO OCCUR. IT WOULD BE BETTER TO WAIT UNTIL IMPLEMENTING REGULATION COVERING INDUSTRIAL NATIONALIZATION WAS PROMULGATED. HE EXPECTED THIS TO HAPPEN SOMETIME NEXT WEEK. SHORAKA SUGGESTED THAT WE SEEK ADVICE OF OTHERS IN PGOI BEFORE PURSUING IDEA. (COMMENT: WITH RAMAZAN BEGINNING LATER THIS WEEK, ANY SUCH TRIP WOULD HAVE TO BE CONSIDERED FOR SOMETIME IN FALL, AT EARLIEST. END COMMENT)
BANK MELLI (HE WAS APPOINTED IN FEBRUARY 1978 BY THE SHAH) WAS UNIQUE. HE ATTRIBUTED THIS TO HIS STRONG FAMILY TIES IN THE BAZAAR. THIS MADE HIM ACCEPTABLE TO THE "OTHER SIDE." FROM SHORAKA'S REMARKS, ONE HAS THE
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CONFIDENTIAL TEHRAN 7648/1 OF 2

C O N F I D E N T I A L SECTION 02 OF 02 TEHRAN 07648

IMPRESSION THAT HE AND HIS SMALL BRAIN TRUST AT BANK
MELLI SERVE AS A "BRIDGE" BETWEEN THE BAZARGAN GOVERNMENT
AND THE REVOLUTIONARY PERSONALITIES ON MATTERS OF
ECONOMIC POLICY. LAINGEN
BT
#7648

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C O N F I D E N T I A L SECTION 02 OF02 TEHRAN 07648

CONFIDENTIAL
STATE 7/23/79
CHARGE:LBLAINGEN
POL:VLTOMSETH:GO
NONE
POL2 DCM RF

AMEMBASSY TEHRAN
SECSTATE WASHDC, IMMEDIATE
INFO AMEMBASSY ABU DHABI
AMEMBASSY ANKARA
USINT BAGHDAD
AMEMBASSY DOHA
AMEMBASSY ISLAMABAD
AMEMBASSY JIDDA
AMEMBASSY KABUL
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY MANAMA
AMEMBASSY MOSCOW
AMEMBASSY MUSCAT
AMEMBASSY PARIS

E.O. 12065: GDS 7/23/85 (TOMSETH, VICTOR L.) OR-P
TAGS: PGOV, PINS, PINT, IR
SUBJECT: PGOI TRIES (ONCE AGAIN) TO CONTROL THE REVOLUTIONARY MOVEMENT

REF: FBIS LONDON 201554Z JULY 79

1. (C - ENTIRE TEXT)

2. SUMMARY: IN A TELEVISED SPEECH TO THE NATION JULY 20 PM BAZARGAN REVIEWED THE REASONS FOR IRAN'S ANOMALOUS PARALLEL SYSTEMS OF GOVERNMENT AND ANNOUNCED THE PGOI'S LATEST ANSWER TO THE PROBLEM. THE EFFECT OF THE LATTER, WE ARE INCLINED TO CONCLUDE, WILL BE MARGINAL. THE PROGNOSIS FOR THE FORESEEABLE FUTURE IS THAT THE REVOLUTIONARY COMMITTEES, THE REVOLUTIONARY COURTS AND VARIOUS ARMED MILITIAS WILL CONTINUE TO ACT INDEPENDENTLY OF BOTH THE PGOI AND THE ISLAMIC MOVEMENT'S LEADERSHIP. END SUMMARY.

3. BAZARGAN TOLD THE IRANIAN NATION JULY 20 (REFTEL) THAT THERE HAD BEEN THREE KINDS OF REVOLUTIONS THROUGHOUT HISTORY, I.E., MILITARY, PARTY AND NATIONAL. THE 1920 COUP LED BY REZA KHAN (LATER SHAH) WAS AN EXAMPLE OF THE FIRST TYPE, THE 1917 RUSSIAN REVOLUTION AN EXAMPLE OF THE SECOND, AND, OF COURSE, THE 1979 IRANIAN REVOLUTION WAS AN EXAMPLE "SCARCELY MATCHED IN THE HISTORY OF THE WORLD" OF THE LATTER. A CONSEQUENCE OF MASS PARTICIPATION IN THE IRANIAN REVOLUTION, HE SAID, HAD BEEN THE DECENTRALIZATION OF POWER WITH ALL MANNER OF INDIVIDUALS AND ORGANIZATIONS SEEKING TO EXERCISE IT.

4. THIS SITUATION, BAZARGAN SAID, COULD NOT PERSIST SINCE ALL TOO FREQUENTLY THOSE ATTEMPTING TO EXERCISE POWER, INTENTIONALLY OR OTHERWISE, WORKED AT CROSS-PURPOSES. THE PGOI, THE REVOLUTIONARY COUNCIL AND KHOMEINI HAD MET TO DISCUSS RESOLUTION OF THIS PROBLEM. THEY SAW THREE ALTERNATIVES: DISSOLUTION OF THE REVOLUTIONARY COMMITTEES AND ALL THE OTHER ELEMENTS OF THE INFORMAL STRUCTURE OF GOVERNMENT, PUTTING THE GOVERNMENT DIRECTULY UNDER THE REVOLUTIONARY COUNCIL "IN THE SAME WAY THAT THE IMAM'S COMMITTEES ARE UNDER THE SUPERVISION OF" IT, AND MINGLING THE MEMBERSHIPS OF THE GOVERNMENT AND THE REVOLUTIONARY COUNCIL. THEY PICKED THE LATTER, AND BAZARGAN ANNOUNCED THAT FIVE MEMBERS OF THE REVOLUTIONARY COUNCIL WOULD BE ASSIGNED TO POSITIONS AS UNDER SECRETARIES IN THREE DIFFERENT MINISTRIES OF THE PGOI. THESE INCLUDED NATIONAL DEFENSE, ECONOMIC AND FINANCIAL AFFAIRS AND SCIENCE AND HIGHER EDUCATION.

5. THIS CHOICE PROBABLY HAS THE LEAST CHANCE OF THE THREE ALTERNATIVES TO BE EFFECTIVE IN RESOLVING THE ISSUE OF DUAL AUTHORITIES. IT IS HARD TO IMAGINE HOW THE THREE MULLAHS AND ONE CIVILIAN NAMED AS UNDER SECRETARIES (ECONOMIC THEORETICIAN ABOL HASSAN BANISADR DECLINED THE OFFER TO TAKE UP THE POSITION AT THE MINISTRY OF ECONOMIC AND FINANCIAL AFFAIRS, APPARENTLY MUCH TO THE RELIEF OF MINISTER ALI ARDALAN) WILL HELP THE PGOI WITH ITS REAL PROBLEM, WHICH IS ONE OF ASSERTING AUTHORITY OVER THE REVOLUTIONARY COMMITTEES AND COURTS AND THE VARIOUS PARAMILITARY FORCES. ALL OF THESE HAVE ACTED NOT ONLY IN INDEPENDENCE OF THE PGOI, BUT OF EVERYONE AND EVERYTHING ELSE AS WELL, AND THERE IS NO REASON WHY THEY WILL NOT STOP ACTING INDEPENDENTLY. LAINGEN##

BULYOSA T COMCARGRU SIX
PRECEDENCE T USS JOSEPH STRAUSS
R 160252Z AUG 79
FM DIA WASHINGTON DC//DN-2C
TO DIAGURINTEL
AIG 7311
AIG 7333
INFO SA/USDAO SOFIA BU
RUEHMY/USDAO MOSCOW UR
RUEVAAA/AFIC WPAFB OH
RUEWJHA/CDRUSAGC FT HUACHUCA AZ
RUFLSAA/NAF SIGONELLA IT//IN
RUEFDIA/DEC CAMERON STATION VA//2C3C/MC RAASN//
BT
C O N F I D E N T I A L NOFORN 1650
DIA IN 80761 (AS OF: 1942 EDT 15 AUG 79)
SUBJ: DIA DEFENSE INTELLIGENCE NOTICE (DIN) (U)
)
IRAN: MARCHERS SUPPORT KHOMEINI. (U)
)
1. (U) FOLLOWING 3 DAYS OF VIOLENCE, TEHRAN WAS VIRTUALLY CLOSED

PAGE 2 RUEKJCS 1602 C O N F I D E N T I A L
DOWN ON 15 AUGUST BECAUSE OF THE COMMEMORATION OF THE DEATH OF IMAM ALI, A SHIA RELIGIOUS LEADER. MEANWHILE, PRESS REPORTS INDICATE TENS OF THOUSANDS OF CITIZENS HELD A MARCH IN QOM TO PLEDGE SUPPORT FOR KHOMEINI.
2. (U) THE MARCHERS REPORTEDLY ISSUED A FIVE-POINT RESOLUTION THAT STATED, "THE IRANIAN NATION, UNDER THE LEADERSHIP OF KHOMEINI, WILL NIP IN THE BUD ANY FORM OF PLOT, SEDITION, INFILTRATION, TUMULT, OR UPHEAVAL. DESPITE ALL INTERNATIONAL PLOTS, IT WILL CONTINUE ALONG ITS PATH." THE RESOLUTION ALSO DEMANDED THE REVOLUTIONARY COURTS EXECUTE THE "ZIONIST RINGLEADERS AND THOSE ASSOCIATED WITH THEM."
3. (C/NOFORN) THIS RESOLUTION AGAIN REFLECTS THE EXTREME XENOPHOBIA PREVAILING IN IRAN. THE PEOPLE SEEM UNABLE TO ACCEPT RESPONSIBILITY FOR ANY UNDESIRABLE ACTIONS OR CONDITIONS. INSTEAD, THEY SEE THE IRANIAN ECONOMIC SITUATION, THE ETHNIC UNREST, AND THE ANTI-KHOMEINI DEMONSTRATIONS AS ELEMENTS OF FOREIGN PLOTS, FOMENTED MAINLY BY THE USN AND ISRAEL.
4. (C/NOFORN) THE STRONG DEMONSTRATION OF SUPPORT FOR KHOMEINI FOLLOWS THE PASSAGE OF STRICT PRESS CONTROLS. IT IS ANOTHER

PAGE 3 RUEKJCS 1602 C O N F I D E N T I A L
INDICATION THAT, IN SPITE OF HIS INCREASINGLY ARBITRARY AND

REPRESSIVE MEASURES, HE ENJOYS THE STEADFAST SUPPORT OF THE LOWER CLASS. THE ISLAMIC FORCES REMAIN IN CHARGE, AND NO POLITICAL GROUP HAS EMERGED TO CHALLENGE THEM.

5. (C/NOFORN) THE ISLAMIC FUNDAMENTALISTS, HOWEVER, HAVE SHOWN THEIR INABILITY TO UNIFY IRAN'S PLURALISTIC SOCIETY, WHICH CONTAINS A LARGE MODERNIZED, SECULAR COMPONENT. DURING THEIR 6 MONTHS IN POWER, THEY HAVE ALIENATED ONE GROUP AFTER ANOTHER. THIS PROCESS CANNOT GO ON INDEFINITELY. UNTIL THE FANATICAL SUPPORT OF THE MASSES BEGINS TO ERODE, HOWEVER, KHOMEINI IS EXPECTED TO REMAIN IN CONTROL AND TO CONTINUE TO CONSOLIDATE HIS POWER.

PREPARED BY: LCDR D. ADAMS, USN, DN-2E

(DECL 15 AUG 85)

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#1602

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CONFIDENTIAL (EXDIS)

DE RUQMHR #0891/01 285 **
ZNY CCCCC ZZH
O 120952Z OCT 79
FM AMEMBASSY TEHRAN
TO SECSTATE WASHDC IMMEDIATE 4217
BT
C O N F I D E N T I A L SECTION 01 OF TEHRAN 10891

CLASS: CONFIDENTIAL
CHRGE: STAT 10/12/79
APPRV: CHARGE:LBLAINGE
DRFTD: CHARGE:LBLAINGE
CLEAR: A/M:PCGAST; PO
WIFT; ECON:ADS
DISTR: CHARGE FILE CON
2/WEB

EXDIS

E.O. 12065: RDS-3 10/12/99 (LAINGEN, L.B.) OR-M
TAGS; PINT, IR
SUBJECT: YAZDI IN NEW YORK: WHERE NOW?

REF: STATE 263952

1. C-ENTIRE TEXT.

2. SUMMARY. YAZDI'S NEW YORK PERFORMANCE WAS AN ABRASIVE AND PUBLIC REMINDER THAT WE HAVE YET TO ACT IN WAYS THAT DEMONSTRATE CONVINCINGLY THAT WE HAVE ACCEPTED THE REVOLUTION. SOME OF THIS IS REVOLUTIONARY RHETORIC BUT MORE OF IT IS GENUINE, REFLECTING AMONG OTHER THINGS A CONCERN FOR CONSOLIDATION OF POWER BY AN INNER PGOI CIRCLE. WE RECOMMEND ACTION IN SEVERAL AREAS THAT WE CAN AND SHOULD TAKE TO STRENGTHEN OUR POLICY HAND IN THIS ATMOSPHERE. END SUMMARY.

3. EMBASSY APPRECIATES EXCELLENT ANALYSIS IN REFTEL OF NEW YORK PERFORMANCE BY DR. YAZDI, A MAN INCREASINGLY INFLUENTIAL AS MEMBER OF A GROUP WITHIN THE PGOI CLOSE TO KHOMEINI AND LIKELY TO PLAY A MAJOR ROLE IN THE EVOLUTION OF POST-REVOLUTIONARY IRAN. (WE INCLUDE IN THAT INNER GROUP, IN ADDITION TO YAZDI, NEW DEFENSE MINISTER CHAMRAN, QOTBZADAH AT NIRT, PGOI SPOKESMAN TABATABAI, AND MINISTER OF INTERIOR SABAGHIAN.)

4. WE SHARE DEPARTMENT'S ANALYSIS OF YAZDI'S PURPOSES -- TO CREATE, FOR HIS OWN PSYCHIC AND PERSONAL POLITICAL PURPOSES THE IMPRESSION OF THE ISLAMIC REVOLUTIONARY AS A NEW BREED OF MAN DEMANDING TO BE HEARD ON THE WORLD STAGE. YAZDI HAD THAT OPPORTUNITY, BOTH AT HAVANA AND AT NEW YORK, AND HE CLEARLY WAS DETERMINED TO USE IT TO MAXIMUM EFFECTIVENESS.

5. MORE SPECIFICALLY, AS FAR AS THE USG IS CONCERNED, HIS PURPOSE WAS TO TELL US, BOTH PRIVATELY AND PUBLICLY, THAT REVOLUTION. AND TO WARN US THAT UNTIL WE DO, THERE CAN BE NO PROGRESS IN BULDING A NEW RELATIONSHIP. THE THEME WAS SOUNDED AGAIN, WITH SPECIFICS, IN A PRESS CONFERENCE ON HIS RETURN HERE FROM NEW YORK (SEPTEL). THE ICE, SAYS YAZDI, HAS NOT YET BEEN BROKEN.

6. THAT MAY SOUND A BIT EXTREME IN LIGHT OF USG ACTIONS TO DATE DESIGNED TO DEMONSTRATE THAT WE HAVE INDEED ACCEPTED THE REVOLUTION. BUT IT IS PERHAPS NOT ALL THAT SURPRISING, FOR A VARIETY OF REASONS -- NOT ALL OF WHICH WE NEED ACCEPT BUT WHICH WE NEED TO TAKE INTO ACCOUNT IN

☆ U.S. GOVERNMENT PRINTING OFFICE: 1979 - 301-825

FINDING WAYS TO DEAL WITH THIS DIFFICULT REGIME.

7. PARTLY, AS REFTEL POINTS OUT, IT IS THE REVOLUTIONARY POLITICIAN, THE AMBITIOUS POLITICAN THAT YAZDI IS. THAT COMPULTION REQUIRES HIM TO TALK AND LOOK LIKE A REVOLUTIONARY, ESPECIALLY IN THIS FIRST RETURN TO THE U.S. AFTER HIS 18 YEARS IN TEXAS AND OTHER WAYPOINTS -- A PART OF HIS PAST THAT HE NOW FINDS SOMEWHAT BURDENSOME POLITICALLY. CONSEQUENTLY IT WAS IMPORTANT FOR YAZDI THAT THE HEADLINES BACK HOME SHOW HIM IN TRUEREVOLUTIONARY COLORS, PREPARED TO STAND UP TO THE U.S. AND NOT SOMEONE STRICKEN WITH THE "MENTAL SLAVERY" THAT HE DECRIED IN HIS HAVANA SPEECH AS "THE MOST DISTRINCT CONSEQUENCE OF IMPERIALISM IN THE CONTEMPORARY WORLD...A CHEAP AND EFFECTIVE TOOL OF PERPETUATING IMPERIALIST DOMINATION".

8. BUT THERE IS MORE THAN THAT IN HIS TOUGH STANCE WITH US, BOTH IN HIS BILATERAL WITH THE SECRETARY AND HIS PUBLIC SPEECHES. YAZDI IS POLITICALLY AMBITIOUS BUT HE IS ALSO A BELIEVING REVOLUTIONARY. IT IS THEREFORE MORE THAN THE REVOLUTIONARY REFURBISHING HIS CREDENTIALS. HIS APPROACH SAYS THINGS THAT ARE FUNDAMENTAL ABOUT THE ENTIRE REVOLUTIONARY APPARATUS HERE -- ONE THING THAT IS TACTICAL AND REASONABLY SHORT-RANGE; THE OTHER MORE FUNDAMENTAL AND LONG-RANGE.

9. IN THE SHORT-TERM YAZDI AND OTHERS OF HIS CLOSE ASSOCIATES IN THE PGOI REFLECT, WE THINK, AN INCREASING CONCERN FOR CONSOLIDATION OF THEIR POLITICAL POWER AT A TIME OF REAL OR IMAGINED THREAT TO IT. THUS THE SHARP REACTION TO THE NEW OUTBREAK OF DIFFICULTIES IN KURDESTAN AND KHUZESTAN, A REACTION MARKED BY A BARRAGE OF INTERNAL PROPAGANDA TO THE EFFECT THAT THE U.S., BEHIND THE FACADE INDEED THAT IRAQ IS ALSO INVOLVED IN SOME CONVOLUTED COLLUSION WITH AMERICAN AGENTS AND INFLUENCE. WHATEVER ITS RELATIONSHIP TO THE REAL SITUATION ON THE GROUND IN THESE TWO TROUBLED PROVINCES, THE SPATE OF PROPAGANDA SEEMS DESIGNED FURTHER TO STRENGTHEN CLERICAL AND REVOLUTIONARY CONTROL OVER THE SECURITY FORCES AND THE EVOLVING GOVERNMENT APPARATUS THAT IS TO BE PUT IN PLACE WHEN THE CONSTITUTION IS COMPLETE. THE EFFORT AT CONSOLIDATION OF POWER IS ALSO SEEN IN THE INCREASING EMPHASIS ON THE NEED TO "PURGE" FROM THE STRUCTURE OF GOVERNMENT BOTH THE REMNANTS OF THE ANCIEN REGIME AND THEIR POLITICAL OPPONENTS. THUS YAZDI IS QUOTED FROM NEW YORK AS SAYING THAT THE

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PURGE OF THE FOREIGN MINISTRY HAS YET TO BE COMPLETED. CHAMRAN TALKS OF THE PURGE HE INTENDS TO PURSUE IN THE ARMED FORCES. THE NAZIH AFFAIR AT NIOC IS ACCOMPANIED BY TALK OF A NECESSARY PURGING PROCESS THAT NAZIH HAD IGNORED OR SET ASIDE. AND KHOMEINI TALKS OF THE PURGE NECESSARY FOR THE ENTIRE SOCIAL AND ECONOMIC STRUCTURE IF THE REVOLUTION IS TO BE CONSOLIDATED.

10. RELATED TO THIS BUT LONGER-TERM IN ITS NATURE IS AN EXPRESSED CONCERN OVER ANOTHER AND GREATER DANGER FOR THE REVOLUTION, ITS GOALS AND PURPOSES. THAT CONCERN RELATES TO THE NEED TOELIMINATE FOREIGN AND PARTICULARLY WESTERN CULTURAL DOMINATION -- AN ALLEGED LEGACY OF THE PREVIOUS REGIM THAT THE REVOLUTIONARIES SEE AS CORROSIVE FOR THE EFFECTIVENESS OF ISLAM AS THE DRIVING FORCE AND MOTIVATION FOR IRAN'S ENTIRE POLITICAL, SOCIAL AND ECONOMIC MAKE-UP: INDEED THEY SEE THIS CORROSION AS THREATENING EVERYWHERE IN THE ISLAMIC WORLD, AN IDEOLOGICAL COMPULSION THAT COMBINES WITH LOOSE TALK OF IRRIDENTISM IN SHIA MESSIANIC TERMS TO MUDDY THE WATERS FOR THE ISLAMIC REPUBLIC'S RELATIONS WITH MOST OF ITS MUSLIM NEIGHBORS.

11. YAZDI DEVOTED A GOOD PART OF HIS REVEALING SPEECH AT HAVANA TO THIS PARTICULAR CONCERN OF THE IRANIAN REVOLUTIONARIES. AS HE PUT IT, "THE STANDARDIZATION OF VALUES, GOALS AND ASPIRATIONS AMONG THE RULING ELITE OF THE WORLD HAS ADDED A NEW DIMENSION OF CULTURAL DOMINATION TO THE EVOLVING CHARACTER OF IMPERIALISM IN THE CONTEMPORARY WORLD." YAZDI CALLED FOR A RECOGNITION OF "THE ALIENATING AND HABITUAL CUTLURAL ALIGNMENT WITH THE SUPERPOWERS AND A SYSTEMATIC EFFORT TO FREE OURSELVES FROM THE MENTAL BONDAGE OF CULTURAL DOMINATION."

12. IT IS NOT AND IT WILL NOT BE EASY FOR US TO WORK WITH A LEADERSHIP THAT BELIEVES AND ACTS AS THIS ONE DOES; THAT KNOW THEY NEED US BUT YET FEAR FOR THEIR REVOLUTION IF THEY GET TOO CLOSE TO US. TIME AND THE COMPELLING CIRCUMSTANCES OF AN ALREADY BUILT-IN MOMENTUM IN THE SECULARIZATION AND MODERNIZATION OF IRAN'S ECONOMY AND ITS URBAN SOCIAL STRUCTURE WILL CHANGE SOME OF THIS. BUT THAT WILL BE A SLOW PROCESS, BARRING SOME DRAMATIC POLITICAL TURNAROUND THAT SEEMS UNLIKELY IN THE SHORT-TERM. WE WILL NEED TO ACT WITH A MAXIMUM OF PATIENCE AND SENSITIVITY AS WE PURSUE OUR INTERESTS IN THE ATMOSPHERE OF SUSPICION MANIFESTED BY YAZDI IN NEW YORK.

13. WITH THIS AS BACKGROUND, WE COMMENT BELOW ON THREE SPECIFIC AREAS OF POLICY: FIRST, MILITARY SUPPLY: SECOND, OUR PUBLIC POSTURE ON THE REVOLUTION; AND THIRD, THE SPECIAL SYMBOLISM OF CALLING ON KHOMEINI AND NOMINATING AN AMBASSADOR.

14. YAZDI DID NOT FAIL IN NEW YORK TO MAKE CLEAR THAT OUR PERFORMANCE IN THE MILITARY SUPPLY FIELD WILL CONTINUE TO BE AN ACID TEST OF OURATTITUDES TOWARD THE REVOLUTION. THE COURSE WILL BE ROUGH, NOT SIMPLY BECAUSE OF WHAT SEEMS DESTINED TO BE A PRICKLY RELATIONSHIP WITH CHAMRAN AS THE

NEW HEAD OF THE DEFENSE ESTABLISHMENT, BUT MORE FUNDAMENTALLY BECAUSE OF THE FEAR OF AMERICAN INFLUENCE IN AND VIA THE MILITARY IN IRAN SOCIETY. (AS YAZDI NOTED IN HAVANA, MORE THAN 1200 IRANIAN MILITARY PERSONNEL WERE TRAINED IN THE UNITED STATES -- A CONSERVATIVE FIGUREBY OUR ESTIMATE). THERE IS ALSO THE ABIDING SUSPICION ON THE PART OF YAZDI AND OTHERS THAT IRAN HAS BEEN FINANCIALLY RAD BY MEANS OF THE TRUST FUND.

15. WE THUS FACE THE CHALLENGE OF SATISFYING BOTH THE POLITICIANS SUCH AS YAZDI AND CHAMRAN BUT ALSO THE MILITARY PROFESSIONALS, WHO ARE BEGINNING TO REFLECT A CONCERN THAT THEY WILL BE DENIED THE LOGISTICAL AND TECHNICAL SUPPORT THEY FEEL THEY NEED FROM THE U.S. NONETHELESS WE SEE OUR CURRENT POLICY STANCE ON MILITARY SUPPLY AS ESSENTIALLY SOUND -- AN OPEN AND STRAIGHT-FORWARD POSTURE CONCERNING BILLINGS AND ACCOUNTS, FRANK AND FORCEFUL REMINDERS ABOUT OUR OWN LAWS AND REGULATIONS THAT APPLY, A DEMONSTRATED WILLINGNESS TO GO ALL OUT IN RESPONDING TO PGOI QUESTIONS ABOUT FINANCIAL DETAIL,
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AND MAKING SPARE PARTS AVAILABLE AS RAPIDLY AS THE PGOI CAN GET ITS OWN HOUSE IN ORDER. WE BELIEVE WE SHOULD, HOWEVER, ALSO BE PREPARED TO TAKE SOME RISKS IN THE CASE BY CASE POLICY WE ENVISAGE AS AFFECTING CLASSIFIED AND SENSITIVE MATERIAL. AS A CASE IN POINT WE BELIEVE WE SHOULD MOVE AFFIRMATIVELY IN RESPONSE TO THE PGOI REQUEST CONCERNING THE RF4E'S. TO DELAY OR TO DENY THESE AIRCRAFT WILL AROUSE NEW SUSPICIONS OF AN INTENT TO PENALIZE THE PGOI ON BOTH FINANCIAL AND POLITICAL COUNTS; APPROVAL OF THIS SMALL NUMBER OF AIRCRAFT ALREADY LARGELY PAID FOR AND ADDITIONAL TO AN ALREADY EXISTING IIAF INVENTORY IS CERTAINLY DEFENSIBLE (IN WHAT WE ASSUME WILL BE REQUIRED CONGRESSIONAL CONSULTATIONS) IN TERMS OF OUR INTERESTS IN IRAN.

16. SECONDLY, AS THIS EMBASSY HAS RECOMMENDED EARLIER, WE BELIEVE WE CAN AND SHOULD FIND WAYS TO SPEAK PUBLICLY AND POSITIVELY MORE THAN WE HAVE TO DATE ABOUT HAVING ACCEPTED THE CHANGE IN IRAN. THERE ARE TWO REASONS FOR THIS; THE ONE OBVIOUSLY TO HELP REDUCE PGOI SUSPICIONS ABOUT OUR PURPOSES AND THE OTHER TO REMIND OUR OWN PUBLIC (ONLY SUPERFICIALLY INFORMED BY THE U.S. PRESS) ABOUT OUR LONG-TERM INTERESTS IN IRAN. THIS IS NOT TO SAY THAT WE NEED PUBLICLY TO EMBRACE AND ENDORSE KHOMEINI, OR TO APPLAUD SUCH FIGURES AS YAZDI AND CHAMRAN AND ALL THAT THEY SAY AND DO, OR TO COMMEND PGOI POLICY IN KURDESTAN. WHAT WE DO NEED TO SAY, IN WAYS THAT WE HAVE NOT YET DONE, IS THAT WE HAVE LONG-TERM INTERESTS IN IRAN THAT CONTINUE AND WHICH WE BELIEVE CAN BE PRESERVED IN AN ISLAMIC IRAN.

17. SPECIFICALLY, WE URGE THE DEPARTMENT TO FIND WAYS PUBLICLY TO SAY THAT WE WISH IRAN WELL IN PUTTING ITS REVOLUTIONARY OBJECTIVES INTO FORMS AND INSTITUTIONS THAT WILL COMMAND THE SUPPORT OF ALL ITS PEOPLE; THAT THE U.S. HAS NO INTEREST IN OR INTENTION OF IMPOSING ANY REGIME, MONARCHY OR OTHERWISE, ON IRAN; THAT WE HAVE AN ABIDING INTEREST IN IRAN'S INTEGRITY AND INDEPENDENCE; THAT AMERICAN INTERESTS IN ACCESS TO IRANIAN OIL ARE SYNONYMOUS WITH IRANIAN INTERESTS IN SUSTAINING AND FINANCING ITS FUTURE INDUSTRIAL AND AGRICULTURAL DEVELOPMENT. WE SHOULD FIND OPPORTUNITIES AS WELL TO WELCOME REVOLUTIONARY IRAN'S EMPHASIS ON ISLAM AND ITS SPIRITUAL CONTRIBUTION TO SOCIETY AS SOMETHING THAT AMERICANS UNDERSTAND AND RESPECT, GIVEN THE WAY IN WHICH AMERICANS ALSO SEE THINGS OF THE SPIRIT AS IMPORTANT TO HUMAN ENDEAVOR.

18. ASSISTANT SECRETARY SAUNDERS' TESTIMONY OF SOME MONTHS BACK BEFORE THE HIRC ON THE MIDDLE EAST AS A WHOLE HAS THE ESSENCE OF MUCH OF THIS AND IS THE KIND OF THING WE SHOULD BE HEARD SAYING MORE FREQUENTLY ABOUT IRAN.

19. THIRDLY, AND BRIEFLY, THERE IS THE VERY LARGE IMPORTANCE OF THE SYMBOLIC ACTS OF SEEING KHOMEINI AND NAMING AN AMBASSADOR. THESE ACTIONS ARE LONG OVERDUE; THEY ARE CENTRAL TO THE WAY IN WHICH YAZDI AND INDEED MOST IRANIANS SEE OUR ATTITUDES TOWARD THE REVOLUTION. IF A NEW AMBASSADOR IS TO BE FURTHER DELAYED, WE RECOMMEND THAT

WE SEEK A MEETING NOW WITH KHOMEINI AT THE CHARGE LEVEL.
AS FOR DESIGNATING AN AMBASSADOR, THE TIMING WILL NEVER
BE TOTALLY RIGHT; THE ACTION SHOULD NO LONGER BE DELAYED.
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1. (C-ENTIRE TEXT)

2. INTRODUCTION AND SUMMARY. WHILE IRAN EARNS TWO BILLION DOLLARS A MONTH IN OIL REVENUES, ABOUT 2.4 MILLION OF IRAN'S WORKFORCE (OR 20 PERCENT) ARE UNEMPLOYED. MANY PLANTS ARE IDLED. AVERAGES PRODUCTION IS ESTIMATED AT FIFTY PERCENT OF CAPACITY WITH THE REVOLUTION 8 MONTHS PAST, AND THE FIRST INITIAL STAGE, RECOVERY FROM CHAOS, ACHIEVED, MANY IRANIANS ARE BEGINNING TO ASK WHY THE RECOVERY CURVE IS NOT RISING FASTER.

3. THIS TELEGRAM EXPLORES A BASIC PROBLEM, THE FAILURE TO TRANSLATE EXCESS LIQUIDITY IN BANKS INTO BADLY NEEDED INVESTMENT OR CREDIT FOR A LIMPING INDUSTRIAL SECTOR. TIGHT CREDIT THWARTS THE DECLARED INTENTIONS OF GOVERNMENT, AND CONTRIBUTES TO THE INSTABILITY AND LACK OF CONFIDENCE WHICH ARE THEMSELVES FACTORS IN THE PROBLEM. OTHER CAUSES DISCUSSED BELOW ARE THE LACK OF INVESTORS AND INVESTMENT, CAPITAL FLIGHT, GOVERNMENT INCAPACITY AT ALL LEVELS, PERSONAL INSECURITY, FAILURE OF THE EMERGENCY CREDIT PROGRAM, AND THE INSOLVENCY OF INTENDING BORROWERS.UPON THE GOVERNMENT'S SUCCESS IN THE COMING MONTHS IN RESOLVING SUCH PROBLEMS AND IN LAUNCHING PROGRAMS WHICH INSPIRE CONFIDENCE, MAY DEPEND THE FUTURE OF THIS REGIME. END INTRODUCTION AND SUMMARY.

4. LACK OF CONFIDENCE, ZERO INVESTMENT, LIQUIDITY PREFERENCE AND CAPITAL FLIGHT. EXCESS LIQUIDITY CAN BE MADE PRODUCTIVE THROUGH INVESTMENT, IN NEW OR EXISTING PLANT, OR THROUGH THE LOAN OF WORKING CAPITAL. INVESTMENT TODAY IS ALMOST NON-EXISTENT, IN PART BECAUSE THE OLD ENTREPRENEURIAL CLASS HAS FLED THE COUNTRY. SADEGH SAMII, DEPUTY MANAGING DIRECTOR OF THE IRAN-ARAB BANK, AND HIMSELF OF THAT KIND OF FAMILY, ESTIMATES THAT TODAY THERE REMAIN NOT MORE THAN FIFTEEN IRANIANS OF THE NECESSARY PERSONAL FINANCIAL STATURE. UNDER TODAY'S CONDITIONS, THEY WILL NOT MAKE A MOVE.

5. THE BAZARI (CONSERVATIVE MERCHANT) CLASS ARE TRADERS, NOT RISK-TAKING INVESTORS. ACCORDING TO DIRECTOR ABTAHI OF THE FOREIGN DEPARTMENT OF BANK MELLI, IRAN'S LARGEST COMMERCIAL BANK, THESE BAZARIS ARE EXTREMELY WELL HEELED. IN THE FACE OF THE SAME UNCERTAINTIES, HOWEVER, THEY PREFER TO PILE UP THEIR WEALTH IN BANKS, OR BETTER STILL, TO

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EXPORT IT. OVERINVOICING OF IMPORTS IS REPORTEDLY A COMMON DEVICE, EXPLAINING WHY THE VOLUME (I.E. TOTAL DOLLAR VALUE) OF LETTERS OF CREDIT HAVE SWOLLEN SO MUCH OVER THE PAST TWO MONTHS. "IT DOES NOT NECESSARILY MEAN INCREASED IMPORTS, ON INCREASED ECONOMIC ACTIVITY. WHY, I KEEP ASKING PEOPLE, WILL THEY NOT FACE THE FACT THAT WE ARE IN A VERY BAD SITUATION?," ASKS ABTAHI.

6. ALTERNATIVELY, ABTAHI WENT ON, BAZARIS (AND OTHERS) ARE CONVERTING THEIR WEALTH INTO GOODS LIKELY TO FIND MARKETS ABROAD. BESIDES OBVIOUS ITEMS SUCH AS GOLD OR ORIENTAL CARPETS, SAFFRON NOW IS MUCH IN DEMAND. UNLIKE THE ENTREPRENEURIAL CLASS WHO HAD BEEN UNCOMFORTABLY CLOSE TO THE OLD REGIME, MUCH OF THE BAZARI CLASS ARE IDEOLOGICALLY CLOSE TO THIS ONE. GENERALLY, THEY ARE DOING WELL, AS ATTESTED BY LIVELY RETAIL ACTIVITY IN THE BAZARS, AND BY THEIR SWELLING BANK ACCOUNTS. EVIDENCE OF UNCERTAINTY ON THEIR PART, THEREFORE, SHOULD NOT BE DISMISSED LIGHTLY.

7. PART OF THIS MISTRUST IS OF THE POLICIES (OR THE LACK OF THEM) EMANATING FROM THE GOVERNMENT. INSTEAD OF FIRM POLICIES, BUSINESSMEN ENCOUNTER ESOTERIC THEORIES, SUCH AS ZERO INTEREST, (REF B), WITHOUT MUCH BEING OFFERED IN THE WAY OF SPECIFICS TO WHICH THEY CAN RELATE, AND ON THE BASIS OF WHICH THEY CAN MAKE PLANS. ABTAHI ONLY HALF-FACETIOUSLY REMARKED THAT TALK OF ZERO INTEREST MIGHT HAVE BEEN A "FALSE SIGNAL," IN ORDER TO SCARE EXCESS LIQUIDITY OUT OF INTEREST-BEARING TIME DEPOSITS AND INTO THE STOCK MARKET OR MORE DIRECT FORMS OF INVESTMENT. BUT THIS, HE SAID SADLY, WAS JUST NOT HAPPENING.

8. EQUALLY DISTURBING FOR THE BAZARIS MUST BE THE PRICE MUCH DID THEY PAY FOR THIS OR THAT IMPORT? HOW MUCH ARE THEY CHARGING THE CONSUMERS? WHILE THIS HAS BEEN A
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TRADITIONAL CLERICAL FUNCTION IN TRADITIONAL ISLAM, ITS SIMPLISTIC APPROACH, AND THE DISQUIET THAT THEIR BIAS AGAINST PROFIT MUST GENERATE, SHOULD BE AN ADDITIONAL DETERENT TO INVESTMENT OR LENDING.

9. CONFIDENCE MAYBE ERODED BY THE QUALITY OF MANAGERS APPOINTED TO RUN THE NATIONALIZED INDUSTRIES. EVEN THE WORKERS, APPARENTLY, MAY COMPLAIN. BANKERS TELL OF MANAGERS WHO HAVE TO BE INTRODUCED TO THE DIFFERENCE BETWEEN THE DEBIT SIDE OF THE BALANCE SHEET, AND THE CREDIT. COMPOUNDING THE RELUCTANCE OF BANKERS TO LEND TO FIRMS WITH INEXPERIENCED MANAGEMENT IS UNCERTAINTY AS TO WHO OWNS AND CONTROLS THE FIRMS. IN SOME CASES WHERE ALL THE SHARES HAVE NOT BEEN TAKEN OVER, BUT WHERE THE GOVERNMENT OR A CHARITABLE FOUNDATION APPOINTS CERTAIN DIRECTORS TO THE BOARD, LINES OF AUTHORITY AND ULTIMATE FINANCIAL RESPONSIBILITY REMAIN UNCLEAR.

10. THE APPOINTMENT OF INEXPERIENCED ADMINISTRATORS REFLECTS THE FLIGHT OF THE EXPERIENCED. YET, A NUMBER OF THE LATTER REMAIN, AND ARE FUNCTIONING WITHIN THE SYSTEM. THEIR ABILITY, HOWEVER, TO BRIDGE THE EXPERIENCE GAP AND EFFECTIVENESS IN MAKING THE ECONOMY TICK, IS REDUCED BY PSYCHOLOGICAL DISCOMFORT IN THEIR ROLES. "DO YOU REALIZE" ASKED ABTAHI, "THAT MY TENURE HERE MAY DEPEND ON WHETHER OR NOT I PRAY?" OTHERS HAVE SAID THE SAME, WHO, LIKE ABTAHI ARE UNWILLING TO PLAY THE HYPOCRITE. ALL ARE VULNERABLE TO SOME EXTENT, A LESSON DRIVEN HOME BY THE FIRING OF THE NIOC CHIEF NAZIH. THERE ARISES A TENDENCY TO AVOID DECISIONS LIKELY TO GIVE OFFENSE OR TO DRAW ATTENTION TO THEMSELVES. IT EVEN AFFECTS THEIR DESIRE TO WORK OVERTIME (ESPECIALLY AFTER THE RECENT MAJOR CUTS IN PAY IN NIOC AND THE BANKS.)

11. ANOTHER, AND RELATED PRESSURE, IS THE FEAR NOT THAT THIS REGIME, BUT THAT ITS SUCCESSOR MAY CALL MANAGERS TO ACCOUNT FOR HAVING CARRIED OUT THE INSTRUCTIONS OF THE PRESENT ONE. WHAT HAPPENED TO MANY WHO CARRIED OUT THE ORDERS OF THE SHAH, THE PATENT INSTABILITY OF THIS REGIME, AND THE FELT POSSIBILITY OF COUNTER-REVOLUTION, ALL COMBINE TO DISCOURAGE INITIATIVE. ON THE POSITIVE SIDE, OF COURSE, THE EXAMPLE OF WHAT HAPPENED TO THOSE WHO RENT THE RULES TO TAKE CARE OF THE SHAH'S CRONIES HAS STRENGTHENED THE BACKS OF BANKERS TO RESIST CRUDE INTERFERENCES BY CLERGY AND KOMITEHS ANXIOUS TO HAVE THEIR PET PROJECTS FINANCED, HOWEVER UNECONOMIC. "NOBODY'S GOING TO STAND ME UP AGAINST THE WALL LIKE THEY DID TO SOME OF THOSE GUYS," SAYS MANAGING DIRECTOR AGHILI OF THE BANK OF IRAN AND THE MIDDLE EAST.

12. ON BALANCE, HOWEVER, THE EFFECT OF THESE PRESSURES, PARTICULARLY ON BANKERS WHO ARE NOW CIVIL SERVANTS, HAS BEEN TO DISCOURAGE INNOVATION, BOLDNESS AND FLEXIBILITY. THESE QUALITIES ARE PARTICULARLY NEEDED AS MANY INSOLVENT IRANIAN INDUSTRIES CALL OUT IN VAIN FOR CREDIT.

13. TO UNDERSTAND THE IMPORTANCE OF CREDIT FOR IRANIAN INDUSTRIES, ONE SHOULD RECALL THAT MUCH OF IT CONSISTS OF THE ASSEMBLY OF FOREIGN COMPONENTS, OR, AT LEAST, DEPENDS HEAVILY ON IMPORTED RAW MATERIALS. INDUSTRIALISTS WERE AT PAINS TO MAINTAIN THEIR CREDIT RATINGS.AS MANAGING DIRECTOR SAGHETTLIAN OF THE FOREIGN TRADE BANK OF IRAN (FTBI) COMMENTED, THEY TOOK CARE OF THEIR SUPPLIERS WELL BEFORE THEIR IRANIAN BANKERS. IN RETURN, MANY ENJOYED THE PRIVILEGE OF BUYING ON OPEN ACCOUNT. OTHERS TOOK OUT TERM LETTERS OF CREDIT OF 180 DAYS OR BETTER. AT 180 DAY TERMS HAVING ALLOWED A MONTH FOR TRANSPORT OF THE IMPORTED INPUTS, A MONTH FOR PROCESSING AND A MONTHS GRACE TO THE PURCHASER OF THE FINISHED PRODUCT BEFORE HE HAD TO PAY, THE INDUSTRIALIST ENJOYED A 3-MONTH HOLIDAY BEFORE HE HAD TO REPAY HIS SUPPLIERS. THE FLOAT WAS AN IMPORTANT FACTOR IN HIS PROFIT MARGIN.

14. WITH THE REVOLUTION, FOREIGN SUPPLIERS BEGAN TO INSIST ON CONFIRMED LETTER$ OF CREDIT, WHICH EFFECTIVELY MEANT CASH. FIRMS IN TURN BEGAN TO DEMAND CASH PAYMENT FROM THEIR CUSTOMERS. THE FLOAT WAS LOST, AND, IN MANY CASES, PRODUCTION IS DOWN (AND EARNINGS),WHILE. FULL PAYROLLS MUST STILL BE MAINTAINED WITH A 20 PERCENT PAY BOOST. CUSTOMERS HAVE WITHHELD PAYMENT. EFFECTIVELY INSOLVENT, WITH THEIR AVAILABLE COLLATERAL (LAND) RENDERED VALUELESS, MANY INDUSTRIES, ALREADY LENT UP, WERE TRYING TO BORROW EVEN TO MEET THEIR PAYROLLS, AND USUALLY WITHOUT SUCCESS.

15. THE CRY FOR EMERGENCY CREDIT, FIRST HEARD FIVE MONTHS AGO, WAS RESPONDED TO BY THE "BUSINESS COMMITTEE" OF THE REVOLUTIONARY COMMITTEE IN QUM. IN LEAGUE WITH RIGHTTHINKING BAZARIS, THEIR WELL-PUBLICIZED 80 BILLION RIAL EMERGENCY CREDIT (REF A) BUILT UP GREAT HOPES. AT SIX PERCENT INTEREST, AND WITH COLLATERAL REQUIREMENTS EFFECTIVELY WAIVED, THE CBI WAS TO CHANNEL 80 BILLION RIALS IN 10 TRANCHES THROUGH 10 BANKS (RECENTLY BECOME 11) OF THE STRONGER COMMERCIAL BANKS. FIFTY PERCENT OF THE
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APPLICANTS' REQUIREMENTS WERE TO BE DRAWN FROM THIS FACILITY, WHILE THE BALANCE WOULD COME FROM THE BANKS OWN FUNDS. HENCE 160 BILLION RIALS WOULD BE INJECTED INTO THE ECONOMY, WITH 1.6 BILLION RIALS EXPECTED FROM EACH DESIGNATED BANK IN THE FIRST TRANCHE. THE CREDITS COULD BE USED EITHER TO MEET PAYROLLS, OR TO PURCHASE RAW MATERIALS.

16. WITH ONE POSSIBLE EXCEPTION, ALL OUR BANKING CONTACTS AGREE THAT THE SCHEME HAS PROVEN TO BE A TOTAL FAILURE THE BANK SANAYE, THE ONLY ONE OF THE DESIGNATED BANKS TO GIVE US FIGURES, NOTED THAT OF ITS 1.6 BILLION, ONLY 309 MILLION, OR 20 PERCENT OF TARGET HAS BEEN ADVANCED. THE PRINCIPAL ROADBLOCK, ALL ADMIT, WAS THE HOPELESSLY COMPLEX REDTAPE ENCOUNTERED BY THE APPLICANT. SAGHETELIAN OF FTBI TELLS OF ONE APPLICANT WHO APPLIED FOR A CREDIT TO BUY RAW MATERIALS, ONLY TO BE REQUESTED BY THE LOAN COMMITTEE OF THE MINISTRY OF INDUSTRIES AND MINES TO SUPPLY THE NAMES OF ALL HIS EMPLOYEES. INADVERTENTLY, HE HAD APPLIED FOR THE WRONG KIND OF CREDIT. (THE QUESTION REMAINS WHETHER IN ORDER TO MAKE AN EMERGENCY PAYROLL LOAN, ONE REALLY NEEDS ALL THOSE NAMES.) THE IRANIAN BUREAUCRACY IN THE MINISTRY HAD A FIELD DAY AS DID THE CLERICAL REPRESENTATIVES, IN SOLICITING NIGGLING AND IRRELEVANT DETAILS. MONTHS WOULD GO BY, WITHOUT ACTION ON THE PART OF THE MINISTRY OF CENTRAL BANK.

17. ALONE AMONG THE BANKERS, SAGHATELIAN APPEARED UNTROUBLED BY THESE DIFFICULTIES. WHEN THE CENTRAL BANK WAS SLOW IN COMING THROUGH, HE WOULD ADVANCE THE ENTIRE AMOUNT FROM FTBI'S OWN FUNDS, AND CORRECT THE ACCOUNT LATER. IN CONCEDING THAT THE DRAW-DOWN RATE IN OTHER BANKS WAS LOW, HE ALLOWED THAT HIS BANK HAD TRADITIONALLY ENJOYED THE CUSTOM OF THE "CREAM" OF IRANIAN INDUSTRY. IN OTHER WORDS, HE WAS LENDING TO THE FEW WHO DIDNT REALLY NEED EMERGENCY CREDITS. AS NOTED ABOVE, THE CONSENSUS WAS THAT THOSE WHO DID NEED THEM WEREN'T GETTING THEM.

18. THE OVERRIDING QUESTION, THEREFORE, REMAINS THE CREDITWORTHINESS OF THE INDIVIDUAL INDUSTRIALIST. BANK MELLI, SAID ABTAHI, HAD DONE ALL IT COULD TO MAKE CREDIT AVAILABLE. BUT WHEN A COMPANY IS PATENTLY INSOLVENT, WHEN IT HAS TO BORROW EVEN TO MEET ITS PAYROLL, THEN A LINE HAS TO BE DRAWN. ABTAHI MADE IT CLEAR THAT HE HAD NO MORE DESIRE THAN AGHILI SOMEDAY TO BE STOOD UP AGAINST A WALL.

19. CONCLUSIONS. FACED WITH THE INEPTITUDE OF THE RESPONSIBLE MINISTRY, NO COLLATERAL REQUIREMENTS, AND ASKED TO PUT THEIR OWN MONEY INTO INSOLVENT OPERATIONS, THE COMMERCIAL BAKS ARE UNDERSTANDABLY NOT RESPONDING TO THIS NATIONAL PRIORITY. THE CONSEQUENCES ARE FELT IN A NUMBER OF WAYS.

20. FOR EXAMPLE, THE TRUCKING INDUSTRY FACES A SERIOUS SHORTAGE OF SPARE PARTS. ONE OF THE LARGEST SPARE PARTS IMPORTERS CAN MEET ONLY 65 PERCENT OF ORDERS. ADDITIONAL STOCK IS AVAILABLE, BUT UNPAID FOR, IN CUSTOMS WAREHOUSES. THE FIRM IS INSOLVENT, AND NO BANK WILL LEND IT FUNDS TO PAY OFF THE LETTERS OO CREDIT AND CLEAR CUSTOMS. MEANWHILE, GOVERNMENT MINISTERS ARE JAWBONING MANUFACTURERS AND IMPORTERS TO "DO SOMETHING" ABOUT THE PROBLEM.

21. THIS MAY BE AN EXTREMS CASE. INDUSTRIES OWNED BY THE GOVERNMENT, AT LEAST ACCORDING TO PRO-GOVERNMENT MANAGING DIRECTOR AFGHANI OF THE BANK SADERAT IRAN, ARE ABLE TO FIND ENOUGH CREDIT TO IMPORT AND TO KEEP PRODUCTION GOING. A NUMBER OF PROBLEMS WERE INHERITED FROM THE DAYS OF THE SHAH. AGRICULTURAL MACHINERY, WE ARE TOLD, IS DOING BETTER.

22. THERE IS, NEVERTHELESS, CAUSE FOR CONCERN IN THE PRECEDING ANALYSIS. AS REVOLUTIONARY EVENTS RECEDE INTO THE PAST, PEOPLE WILL EXPECT MORE OF GOVERNMENT THAN GOVERNMENT IS PRESENTLY DELIVERING. THE NEXT FEW MONTHS SHOULD GIVE US A BETTER IDEA OF WHETHER THE STABILITY AND CONFIDENCE CURVE WILL GO UP, OR DOWN. LAINGEN

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E.O.12065: GDS 10/24/85 (KENNEDY, M.) OR-E
TAGS: EIND, PINS, IR
SUBJECT: POST-REVOLUTIONARY INDUSTRY IN TABRIZ: MERCEDES BENZ

1. (C-ENTIRE TEXT)

2. SUMMARY: DURING A RECENT VISIT TO TABRIZ, TDY COMMOFF VISITED MERCEDES-BENZ JOINT-VENTURE DIESEL ENGINE PLANT. COMMOFF FROM EARLIER TOUR IN TABRIZ (1972-74) WAS WELL-ACQUAINTED WITH PLANT, ITS PREVIOUS IRANIAN MANAGING DIRECTOR AND ITS NEW IRANIAN MANAGING DIRECTOR, CHRIST AGHABEGIAN WHO HAPPENS TO BE AN ARMENIAN. BY POST-REVOLUTIONARY IRANIAN INDUSTRIAL STANDARDS, PRODUCTION AT 50 PERCENT OF PAST PRODUCTION CAN BE COUNTED AS SUCCESS. STORY OF HOW PLANT IS WEATHERING CRISIS PROVIDES INTERESTING VIGNETTEE ON REVOLUTIONARY IRAN AS WELL AS EXAMPLE OF HOW TALENTED ARMENIAN MANAGER CAN JUGGLE OFTEN CONFLICTING INTERESTS OF GOVERNMENT, PRIVATE SHAREHOLDERS, BANKS, REVOLUTIONARY COMMITTEES, MULLAHS AND WORKERS. END SUMMARY.

3. THE IRANIAN DIESEL ENGINE MANUFACTURING COMPANY (IDEM) WAS ESTABLISHED IN 1970 AS A MERCEDES-BENZ JOINT VENTURE TO MANUFACTURE TRUCK AND BUS DIESEL ENGINES. APPROXIMATELY EQUAL SHARES ARE HELD IN THIS PRIVATE JOINT-STOCK DEVELOPMENT BANK OF IRAN (IMDBI), KHAVAR COMPANY AND IRAN NATIONAL. KHAVAR AND IRAN NATIONAL ARE MERCEDES-BENZ MANUFACTURERS IN TEHRAN OF M-B TRUCKS AND BUSES RESPECTIVELY. IDEM HAS BEEN A SUCCESS STORY; BY 1977 PRODUCTION HAD RISEN TO 18,000 ENGINES A YEAR (APPROXIMATELY HALF EACH FOR KHAVAR AND IRAN NATIONAL) AND A VIGOROUS EXPANSION PROGRAM WAS ENSURING STEADY INCREASE IN IRANIAN VALUE ADDED. PRODUCTION FOR THE CURRENT IRANIAN YEAR (MARCH TO SEPTEMBER) HAS DROPPED TO 750 ENGINES A MONTH OR ABOUT 9,000 PER YEAR.

4. IDEM HAS BEEN BOTH FORTUNATE AND UNFORTUNATE IN ITS CAPTIVE MARKET. KHAVAR COMPANY HAS HAD VERY SERIOUS CREDIT AND PRODUCTION PROBLEMS SINCE THE REVOLUTION. WHILE ITS CHIEF STOCKHOLDER (THE SOUDEVAR FAMILY) HAS REMAINED IN IRAN, THE GOVERNMENT HAS INSTALLED NEW MANAGEMENT AND A NEW BOARD OF DIRECTORS. KHAVAR WAS OVER-EXTENDED EVEN PRIOR TO THE REVOLUTION; TRUCKS WERE SOLD ON CREDIT IN IRAN AND KHAVAR ALWAYS HAD TO STRUGGLE FOR OPERATING CAPITAL. WITH THE REVOLUTION, THE SHUT-DOWN OF LARGE CONSTRUCTION PROJECTS, THE REFUSAL OR INABILITY OF ITS CUSTOMERS TO PAY THEIR DEBTS, COUPLED WITH CREDIT SHORTAGES AND THE INEXPERIENCE OF ITS NEW MANAGEMENT, THE COMPANY IS NEARLY BANKRUPT. WORKERS WAGES HAVE BEEN RAISED WHILE PRODUCTION

IS VIRTUALLY NIL. IRAN NATIONAL,ON THE OTHER HAND, WAS A MONEY MACHINE FOR ITS OWNERS, THE KHAYYAMIS, IN PRE-REVOLUTIONARY IRAN. PAYKAN AUTOMOBILES MADE BY THE FIRM WERE IN SUCH DEMAND THAT CUSTOMERS PAID CASH 6 MONTHS IN ADVANCE AND ITS M-B BUS MARKET WAS GROWING STEADILY. THE KHAYYAMIS HAVE FLED FROM IRAN, THEIR PROPERTY HAS BEEN NATIONALIZED, BUT EVEN THE PGOI HAS NOT BEEN ABLE YET TO RUIN IRAN NATIONAL. THE COMPANY HAD SURPLUS CASH OPERATING CAPITAL OF OVER 1 BILLION TOMAN (ABOUT 135 MILLION DOLLARS) ON THE EVE OF THE REVOLUTION. THIS HAS PROVIDED A COMFORTABLE TEMPORARY CUSHION TO ABSORB INCREASED WORKER WAGES AND THE CONTINUING DEMAND FOR M-B BUSES HAS PROVIDED A MARKET FOR IDEM.

5. BY TABRIZ AND EVEN IRANIAN STANDARDS, IDEM HAS BEEN A PROFITABLE COMPANY FOR ITS SHAREHOLDERS. TURNOVER WAS OVER 600 MILLION TOMAN PER YEAR (NEARLY 100 MILLION DOL), IMPORTS OF COMPONENTS FROM DAIMLER-BENZ WERE OVER 100 M. DM PER YEAR, THE PLANT EARNED A PROFIT OF 80 MILLION TOMANS (OVER 10 MILLION DOLLARS) IN 1977 AND PROVIDED EMPLOYMENT FOR 1300 TABRIZIS. PLANT IS NOW AT HALF-PRODUCTION, IS PAYING ITS SAME WORKFORCE (WHICH CANNOT BE REDUCED) HIGHER WAGES AND IS LOSING ABOUT 5 MILLION TOMANS A MONTH (ABOUT 800,000 DOLLARS). LOSSES ARE TO A LARGE EXTENT BEING FINANCED THROUGH DIPPING INTO DEPRECIATION RESERVES AND SOME BANK CREDITS. PRIOR TO THE REVOLUTION, D-M GERMANY SOLD COMPONENTS AT 50 PERCENT DOWN AND 50 PERCENT IN 9, 12, AND 15 MONTH TRANCHES. AFTER THE REVOLUTION, D-M EXTENDED TERMS TO A 20 PERCENT TO 80 PERCENT RATIO, BUT WHEN HERMES ELIMINATED ITS EXPORT INSURANCE, IDEM WAS FORCED TO PURCHASE ON A CONFIRMED LETTER OF CREDIT BASIS.

6. THE REVOLUTION HAS DRAMATICALLY CHANGED MANAGEMENT-LABOR RELATIONS AT IDEM, AT LEAST IN THE SHORT-RUN. AGHABEGIAN BECAME ACTING MANAGING DIRECTOR IN EARLY 1978. AGHABEGIAN, A NATIVE TABRIZ ARMENIAN, HAD SPENT 13 YEARS IN GERMANY, BUT RETURNED TO TABRIZ IN 1976 AS AN ENGINEER AND HAS WORKED HIS WAY TO THE TOP OF THE COMPANY. AGHABEGIAN WAS APPOINTED MANAGING DIRECTOR BY THE BOARD OF BT
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DIRECTORS AFTER THE REVOLUTION AND RE-CONFIRMED IN THIS POSITION BY THE REVOLUTIONARY PLANT COMMITTEE IN A NOISY MEETING OF ALL 1300 EMPLOYEES. THE EARLY PLANT COMMITTEE HAD 29 MEMBERS (SOME LEFTISTS), BUT THE WORKERS HAVE SINCE ELECTED A NEW 5-MAN COMMITTEE COMPRISED OF VERY RELIGIOUS WORKERS. AGHABEGIAN IS SOMEWHAT CONCERNED THAT THIS COMMITTEE IS INCREASINGLY BEING BY-PASSED BY WORKERS WHO WANT TO BRING THEIR PROBLEMS TO HIM DIRECTLY. WHILE THIS INDICATES TRUST IT PLACES AN IMPOSSIBLE DEMAND ON HIS TIME.

7. EVEN PRIOR TO THE REVOLUTION, AGHABEGIAN HAD VERY ASTUTELY REACTED TO WORKER FRUSTRATIONS AND JEALOUSIES. TO THE CHAGRIN OF STAFF, HE ALLOWED WORKERS TO USE THE IDEM CLUB, SWIMMING POOL AND TENNIS COURTS. HE STOPPED CONSTRUCTION ON A 250,000 DOL HOUSE HE HAD BEEN CONSTRUCTING AND HAS CONTINUED TO LIVE IN A SMALLER HOUSE IN TABRIZ. HE NOTED THAT RELIGIOUS WORKERS HAD NO WHERE TO PRAY AND BEGAN THE CONSTRUCTION OF A SMALL MOSQUE ON THE PLANT SITE. HE REFUSED A CHAFFEUR, SOLD THE NEW MERCEDES COMPANY CAR AND DRIVES A 5 YEAR OLD MERCEDES. ALL OF THIS HAS PAID OFF IN BETTER WORKER RELATIONS, BUT PERHAPS EVEN MORE IMPORTANTLY HAS PROMOTED AGHABEGIAN'S RELATIONS WITH THE CITY'S NEW REVOLUTIONARY ESTABLISHMENT. THE SINGING OF HIS PRAISES BY HIS PIOUS WORKER COMMITTEE HAS BROUGHT VISITS AND COMMENDATIONS FROM THE CITY'S CHIEF AYATOLLAHS. HIS RELATIVELY SUCCESSFUL PLEAS FOR CREDIT FROM THE CAUTIOUS BANKERS IN TABRIZ HAVE BEEN BACKED BY REQUESTS FROM THE CHIEF REVOLUTIONARY COMMITTEE TO THE GOVERNOR GENERAL TO THE CITY'S CHIEF AYATOLLAHS.

8. AGHABEGIAN REALIZES THAT SUCCESS IN REVOLUTIONARY IRAN IS TEMPORARY. THE WORKERS WHO "ELECTED" HIM CAN TURN AGAINST HIM ENBLOC FOR LITTLE OR NO CAUSE. HIS BOARD OF DIRECTORS, MANY OF WHOM ARE NOW GOVERNMENT APPOINTEES, ARE AN ADDITIONAL TRIAL. HE HAS FOUGHT THEM, HOWEVER, REFUSING TO HAVE MINUTES OF BOARD MEETINGS CHANGED FROM ENGLISH TO FARSI AND HAS CHALLENGED THEIR BRAND OF "BANNER" REVOLUTION (ALL RHETORIC, NO WORK). MOTIVES ARE NOTORIOUSLY DIFFICULT TO ANALYZE, BUT IT APPEARS THAT AGHABEGIAN, WHO HAS BEEN FRUSTRATED TO THE POINT OF RESIGNATION ON THREE SEPARATE OCCASIONS, BELIEVES THAT THE PLANT MIGHT WELL FAIL WITHOUT HIM. SINCE HIS OARD AND THE WORKER COMMITTEE REFUSED TO ACCEPT HIS RESIGNATION THEY MAY AGREE. AGHABEGIAN IS A MANAGER WHO SEEKS TO CONQUER THE IMMENSE CHALLENGES FACING
HIM. HIS LINES OF ESCAPE SHOULD THE CHALLENGE PROVE TOO LARGE ARE OPEN, HOWEVER; M-B HAS A JOB WAITING FOR HIM IN GERMANY AND HIS ARMENIAN RELATIVES IN LOS ANGELES WOULD MAKE HIM A BUSINESS PARTNER. AGHABEGIAN IS AN EXAMPLE OF ONE OF ONLY A FEW HUNDRED MODERN MANAGERS THAT IRAN CANNOT AFFORD TO LOSE. FAR TOO MANY MANAGERS HAVE ALREADY LEFT THE COUNTRY. THE MAJORITY OF THOSE REMAINING HAVE FRUSTRATIONS SIMILAR TO AGHABEGIAN'S AND IN MOST CASES SIMILAR OPPORTUNITIES ELSEWHERE. LAINGEN
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